INDIAN MONETARY PROBLEMS

BY

S. K. SARMA

MADRAS:
THE LAW PRINTING HOUSE, MOUNT ROAD.
1911

TO

RAO SAHIB S. M. RAJA RAM RAO

IN TOKEN OF LIFE-LONG FRIENDSHIP AND AFFECTION
THIS BOOK IS

DEDICATED BY THE AUTHOR.

CONTENTS.

INTRODUCTION.

Among the many questions that are at present exercising public mind, perhaps none are more difficult and perplexing than those that relate to Indian currency. In any age and in any country they involve considerations that are complex and present phases that vary, but the complexities and varieties are particularly striking in India. A mother country strongly wedded to gold mono-metallism which it would not abandon for anything in the world, a dependency which, despite all efforts to link its monetary system to that of the mother country, insists upon consuming for its monetary purposes as much of the white metal as possible, a bureaucracy which has in fat years and lean years alike to ship about eighteen millions sterling as a tribute to the Dominant State and so finds it difficult to make both ends meet with a silver standard, a mercantile community which never forgets its domicile, but is vociferous enough to influence the currency policy of the Government to suit its own requirements and an inert mass of three hundred millions which is indifferent to, not to say ignorant of, the grave issues involved in the manipulation of the monetary system by an irresponsible bureaucracy—that is to

say, a bureaucracy not responsible to the will of the people as expressed by their chosen representatives—these are some of the factors that make the monetary problems what they are.

It is needless to say that a handbook giving an outline of these problems is a desideratum. And it is a matter for profound regret that there is no source to which the average Indian, known in common parlance as the man in the street, can turn for profitable guidance. Superficial writers like Sir John Strachey have of course interposed erroneous conclusions in their treatises, but no compendious volume even aiming at no more than a bare summary of the many-sided problem has as yet appeared. Mr. H. F. Howard of the Sea Customs, Calcutta, has lately brought out a handbook; but his *India and the Gold Standard* is an apology to the existing conditions. He is an out and out supporter of the official policy. To him even the most temporary makeshift the Government have been compelled to adopt is the product of a design, the result of a set purpose. Except for the mass of detail and statistical information found scattered in its pages, the book is no good. Especially Indian readers anxious to get a knowledge of these problems have to be warned off the book.

To the earnest student hankering after a thorough knowledge there is a wide field indeed and the

literature would more than satisfy the most omnivorous reader of blue-books. If one has mastered his Mill, Marshall, Nicholson, Bagehot, Goschen and Giffen for knowledge of the first principles, he can take up the reports of the Gold and Silver Commission of 1886, the three International Monetary Conferences, and the Herschell and Fowler Committees and, if his curiosity is sharpened, follow the debates in the House of Commons—and they have been many—and make up for the rest by a study of the financial statements from 1872. Then one's conversion would be complete. Very few can stand the dreary pages of the ponderous volumes, that go by the name of "blue-books," which patient committees have been instrumental in giving to an amazed world and only those who have gone through them can appreciate the wearisomeness to the flesh they involve, though ultimately they give to the brain the best training possible. A weary reader of blue-books is fit for any patient work.

But it is given to few to command the time and the patience involved therein and what a busy public wants is a statement of the case for and against. If Mr. Ranade had lived to-day, how inestimable would have been his guidance, not only in this but in many problems that involve grave economic issues! Mr. Gokhale, his best legacy, and the brain of modern India, (he would have gladly introduced

this book to the judgment of the critical public with a foreword if health had permitted him) has made many speeches in the Viceroy's Council wherein he has dealt upon these problems. And then Mr. D. E. Wacha, the ablest statistician living, whose capacious intellect is a veritable storehouse of every statistical information, has written and spoken only too often. We have been indenting so frequently upon them that it would be unjust, if not cruel, to ask them to give us an expanded version of their views, though they would be placing us under yet an additional obligation to them by so doing. Perhaps such work ought to be taken up by younger and more vigorous men trained under them.

This book does not aim at supplying the void I have been deploring in the economic literature of India. Had I such an ambition I would have given it an entirely different cast. It is more modest than a handbook, a trifle better than the brochure of the controversialist. Some of the papers published in the volume have already appeared in Indian periodicals. To the Hon'ble Mr. S. Sinha, the talented and well-known Editor of the *Hindustan Review*, and to Rao Sahib S. M. Raja Ram Rao, Editor of the *Wednesday Review*, with whom I have been associated in the conduct of his journal ever since its inception, except for a brief period of a year and a quarter when I was in charge of the English pages

of the *Indu Prakash*, my thanks are due for permission to re-print articles that have appeared in their magazines. They have been revised and a few more papers have been added to them in the hope that they may be of some use to those who take an intelligent interest in these problems. By too constant reading of official reports and publications, where a high standard of literary excellence is not always maintained, I have spoilt my English somewhat, and if I have offended against King's English anywhere, the reader has learnt the reason why: that is not my fault and we journalists are fed on such a pabulum!

It is with the view of not wounding too much the literary conscience of my readers that I have embodied as far as possible the very words of the many economic writers and thinkers whom I have called upon to give evidence in my favour. (And lest any confusion should arise I have given them smaller type.) Indeed, nothing would have been easier than to multiply the pages of this book even ten-fold by freely quoting from those who have warned the Government against the very policy which they have been pursuing. Some of them are eminent economists, but a larger number are trained in the school of practical life, in world-wide trade and commerce. Even if numbers counted, the advocates of the present system are very limited. In the first chapter

I have endeavoured to show that a gold standard is not possible for us having regard to the fact that the currency of a country must itself be the standard; in the second I have pointed out that it is not as easy to change the currency into gold from silver as some of its advocates imagine, and in the third I have estimated the probable cost and sacrifice a gold currency would involve, should we insist on our having it. In the fourth I have given a survey of the rupee policy of the Government and shown how they had fallen into avoidable errors, and pleaded in the last for a rational policy which is to go back to the "honest rupee" with or without the co-operation of the other Powers.

That we shall have sooner or later to abandon the parlous step we have taken is becoming clear every day. Nobody envies us the pretty scrape into which we have got. We cannot keep still, having converted the entire currency into a token currency, without being able to force the official currency into circulation, without in fact the means of doing so, and keeping the gold necessary for it invested in securities six thousand miles away. If we are to press forward, we must see that gold circulates among the people. But India's difficulty is turning out Great Britain's opportunity. We are struggling for an automatic currency, but our gold is in the grip of the British trader. It may be that

the Government will not learn the lesson of wisdom and truth and must be purified by the fire of experience; it may be that they will not revert to an automatic silver currency unless all their chimerical schemes fail. But all the time that they are talking of a gold standard and a gold currency, why don't they bring their gold into India, build up as large a reserve as they think needful, and begin to circulate the gold by issuing notes against it? Why are they feeding Throgmorton Street? Is it because they themselves have a notion they will not succeed?

Meanwhile the Anglo-Indian trader out here is growing uneasy. The Gold Standard Reserve, he feels, is going to fulfil none of those fine visions formed about it. He is half-conscious that gold may after all slip from his hands and get hoarded if put into circulation. At all events he wants to make hay when the sun shines. This is what in effect he says to the Finance Member: "Look here, Sir Guy, I don't mind when your fine visions about a gold currency are going to be realised. You know, perhaps, as much of it as I do. It is time enough to think of the millennium when it comes. Meanwhile I see that you have about twenty millions sterling you don't know what to do with. I am conducting my business with little capital and am awfully bothered with a thirteen per cent bank rate when the export season comes. Why don't you bring your gold

down here and lend it to me? If you will lend it at six per cent, I may at times make seven per cent profit and as for you, you are interested in the export trade as much as I am; otherwise your "bogus rupee" will fall down like a house of cards. What say you for an *entente* on these terms?"

That is the problem of the immediate present. We are at the beginning of the quarrel between the British trader and his Anglo-Indian compatriot and we shall watch it with interest as it progresses. It is just like the quarrel of two jealous wives of a polygamous Indian. Only the victim that suffers is the tax-payer who is now without a proper standard and a proper currency. He is the patient on whom empirical experiments are made by wayward doctors. However the quarrel may end, whether it is the British or the Anglo-Indian trader that wins, the woes of the vanquished will be those of the Indian tax-payer. It is the problems that more lastingly concern him that these pages deal with and I would bespeak for them a patient and indulgent hearing.

Before concluding, I must express my profound thanks to my old friend, Mr. T. A. Venkasawmy Rao, the Proprietor of the Law Printing House, perhaps the premier printing house in Southern India, for the excellent get up of the book.

S. K. S.

INDIAN MONETARY PROBLEMS.

CHAPTER I.

THE ALLEGED GOLD STANDARD.

THE Anglo-Indian mercantile community, as represented by its Press, has of late been very wroth against the Government of India for not paying sufficient heed to its interests in the matter of the regulation of the gold currency. Needless to say it is exceedingly unkind of it to do so, seeing that the Government of India have accepted in a State document their obligations to the mercantile community in whose interests the mints were closed to the private coinage of silver and a far-reaching revolution in the monetary standard was effected. Sir John Mackay, who was the chief actor in the drama, was honored with a seat in the Secretary of State's Council and, doubtless, he was keeping till lately as good a watch over the monetary requirements of his community as he did eighteen years ago. But the mercantile community is anxious to have it all its

own way and that the door should be open to it as soon as it knocks. It cannot wait and there is no parleying with it. Not long ago an Anglo-Indian journal was telling some hard things about the Secretary of State and his Council, openly indicting the latter of 'complaisant incapacity' and that 'the mismanagement of India's financial affairs by the Council has been particularly baneful in all matters connected with the establishment of a gold currency.' The influence of their credit environment, it said, 'is too great to enable them to do justice to India'—a discovery which to it may seem profound, but to us is only a commonplace.

The part which the India Council has played in the matter of the introduction of the gold standard for India and ever since, we confess, we do not know for a certainty, for the simple reason that the proceedings of the Council are not made public, but the journal says that they are responsible for vetoing the establishment of open gold mints in India and for the investment of the Gold Standard Reserve in England. We take it they are substantially true. But we cannot be as much surprised as the writer in it affects to be that the India Council is under an environment whose influence cannot be resisted by it even though it is a question of doing justice to India. We have always regarded the India Council as a body subservient to the will of those powerful

interests which have a share in the making or marring of British Cabinets, and that it has never been the independent critic of the Secretary of State, his guide, philosopher and friend, it was expected to be. And if in this matter of the manipulation of Indian gold, our Anglo-Indian friends have discovered a 'complaisant incapacity' in the Council, it is not a matter for surprise to us. The Council cannot resist the pressure of the London Money Market, which has not always a superfluity of cash and for which the strengthening of the gold reserve in the Bank of England is always a matter of grave anxiety, which is relieved by the timely intervention of an obliging Secretary and his Council. The India Council have always a duty to perform to the London Money Market before they can pay any attention to their duty to India, even as they have to Lancashire! And there is no use Anglo-Indian critics fretting and fuming over it.

Now, what are the counts of indictment that are made against the Secretary of State for India and his financial advisers? They are, firstly, the location of the Gold Standard Reserve in England—a reserve that has been built up at the expense of India and by the profits on coinage and which the Anglo-Indian merchants interested in foreign trade declare should be held in India and for their benefit. Secondly, the competition of the Secretary of State, who by selling

Bills over and above his requirements, prevents the influx of gold into India which is the only means by which the balance of Indian exports could be paid for. Before the closing of the mints to the private coinage of silver, the competition of the Council Bills with Commercial Bills had the effect of depressing exchange, and if India had not to make the large remittances to England she has to, she would have absorbed a considerable quantity of silver, which withdrawn from the market and hoarded or cast into ornaments, would have ceased to depress the price of the white metal. But since the closing of the mints the only way by which the balance of trade could be met is by a remittance of gold to India which is not in the interest of the London Money Market. It is anxious to keep as much gold as possible and has influence enough to induce the Secretary of State for India to sell Bills and thereby save the trade the trouble of shipping gold to India. That the Gold Standard Reserve, now amounting to about nineteen millions sterling, should be kept in the Bank of England or invested in gilt-edged securities, is bad enough in all conscience; but that the revenues of India should be held in gold in England to strengthen the depleted Bank reserves is simply inexcusable.

But did the Anglo-Indian mercantile community and other "gold-bugs" who will have nothing but the yellow metal, bargain for anything better? So

far as the Gold Standard Reserve is concerned there was considerable discussion last year both in and outside the Viceroy's Council and the Government of India's decision has been stated in plain and unequivocal terms by the hon'ble Mr. Meston. Three counts of indictment were made against the policy of the Government, first that the Reserve was not strong enough, second that it was not held in India, and third that it was not held in solid gold. With regard to the last, Mr. Meston disclaimed all idea of feeding the speculator in Throgmorton Street, but at the same time raised a note of warning that "we must walk carefully when there is any danger of disturbing the chief gold market of the world, or of creating or exaggerating any gold stringency which will react on Indian finance as surely as the night follows the day." This has clearly to be borne in mind, for by abandoning the silver standard in which we were strong and secure, we have exposed ourselves toall the risks and dangers to which the gold standard is liable and falls a victim by the gentlest of monetary disturbances. And yet Mr. Meston pants for the ideal of a true gold currency. "I would ask our critics," he went on, "to continue to help us with their advice, and to assist us in carrying out the development of the policy, not on grounds of theory, not in an economic vacuum, so to speak, but in touch with the realities of business and the wide interest of Indian

finance." In the interest of Indian finance, a gold standard with a gold currency will only lead to ruin.

With regard to the second, Mr. Meston said that he had been at pains to get at the foundation of the belief that every sovereign held in London should be realised and shipped to India and held in the currency vaults at Calcutta. And he had come to the conclusion that it was more a matter of sentiment than one based upon reason. The Government of India are prepared to hand over the gold lying in the currency chests of India if people have the need; but when a slump in exchange threatens, what is really wanted is gold for export, and instead of giving the trade gold in Calcutta, which they will have all the trouble and delay and expense of shipping to London, the Government have kept gold ready exported in London, where the trade will need it and where a fall in exchange can be most effectively countered. The advantage on the practical side is plain; only the trade have a suspicion whether the gold in London will be available at the time when it may be needed most. The experience of four years ago has been against the optimistic assurance of Mr. Meston. The Government of India were so nervous that it was not till after considerable agitation that they resolved to dole out a few thousands when the exchange fell below par in the September of 1907. The Finance Member, Sir

Edward Baker, since then assured a more prompt help, but it has not yet been put to the test, and when there is a really adverse balance of trade against India, accompanied by a heavy famine, it may be doubted whether gold will be found in the Bank of England sufficient to prop up exchange and accommodate trade. The trade have at least reason to be sceptic about London gold coming to their help.

With regard to the first and the most important count of indictment that the Reserve is not big enough, Mr. Meston said: "In theory we ought to accumulate gold enough to ensure the convertibility of all the rupees in circulation. How much that would be, is difficult to say—probably about 160 millions, a much higher figure if we include hoardings and rupees which are in other ways out of circulation. Anyhow we may take the figure as somewhere between 150 and 200 millions sterling; and of course that figure has only got to be named to show how much room there is for difference of opinion as to the exact amount that we should put into our Reserve. As a matter of practice, we know that no substantial fraction of the total circulated is ever likely to be called upon...if we build up 25 millions, and if the Secretary of State covenants—as he has done—to make the whole of it readily available at need, and if he is prepared, should the worst come to the

worst—as I have every hope he would be—to supplement our Reserve, if needed, by gold borrowings —then I would ask the Council if they see much wrong with the 25 million standard, not in theory but as a working business proposition." Mr. Meston's memory must be short indeed, or his optimism too great, if he can be so sure of maintaining exchange with a twenty-five million reserve, seeing that with a reserve of twenty-four and a half millions exchange fell twice within the last few years.

Mr. Meston wants guidance as to how the final step for a true gold currency can be taken "not on grounds of theory," but "in touch with the realities of business and the wide interest of Indian finance." The question was thoroughly discussed in all its aspects by two Commissions, by Lord Herschell's Committee in 1892 and Sir Henry Fowler's Commission six years later. The voluminous reports and more especially the appendices contain a lot of valuable information from businessmen and they have in most part been decidedly against the gold standard owing to the utter impracticability of the scheme. We have no space to quote even the most valuable evidence as extensively as we would desire and we give below only a few. The following is from the evidence recorded by the Lord Herschell Committee.

Mr. Robert Hardie, a member of the Council of India, said :—

15. Then the objection that you would point out would be as to adopting a gold standard in such a way as to fix a higher ratio between silver and gold than at present exists?—Whatever rate is adopted, it seems to me impossible to maintain a gold standard in India without a considerable amount of gold.

16. But have you formed any idea as to the amount of gold which would be necessary for that purpose? Does it necessarily follow that you would require a very large addition to the present import of gold into India in order to fix a gold standard now?—Yes, I think a large addition to the present import of gold would be required. Recently the highest financial authority in India estimated the active circulation in India at 115* millions, exclusive of coin hoarded; and it seems to me that, to give an effective gold value to this large amount of currency a large amount of gold would be required.

17. That is assuming that you are going to substitute a gold currency, throughout India for silver; but would it not be possible to have a gold standard, and yet that the bulk of the currency metal should be silver?—I do not think so. The currency would, no doubt, continue to be mainly silver, but I do not see how a gold value could be given to it, unless it was exchangeable for gold.

Mr. Robert Campbell, manager of the National Bank of India, said:—

180. Do you think, apart from the effect which you would deprecate, it would be practicable to adopt a gold standard for India?—A gold standard without gold?

* It must now be over 200 millions.

181. Well, either with or without?—Well, with gold—I do not think you can get the gold; if you got it, I do not believe you could keep it in circulation; and without it, I think a gold standard without gold is somewhat of a fiction.

182. But is it necessary to keep any considerable amount of gold in circulation, in order to have a gold standard?—I do not see that a gold standard is a reality, without a certain amount of gold at the back of it.

183. We will come to the amount presently, but you do not suggest that the great bulk of the circulation of the country may not be silver, whilst yet it may have a gold standard?—I do not think so, because as I said before, you would reduce your silver currency to a token currency.

184. Well that may be. Take the case of France; the circulation of five franc pieces in France is very large?—Yes.

185. Taken at the ratio of $15\frac{1}{2}$ to 1?—Yes; but there is an immense stock of gold. France has got more gold than silver now. I think the stock of gold in the Bank of France is about 66,000,000 *l*.

Mr. Charles Gairdner, manager of the Union Bank of Scotland, said:—

519. (*Chairman*) Have you considered the suggestion to substitute a gold standard in India for the present?—Yes, I have given it as much attention as my materials, I may say, enabled me to work upon; and, the more I examined it, the more serious the difficulties in the way of it seemed to me to grow.

520. Will you state what those difficulties are, as they occur to you?—Well, in the first place, there is the important preliminary question, which, perhaps, I had better refer to, that is, whether I may assume that a gold standard for India means a gold coinage also, because, if it does, I should like to understand that or rather I should like to make my statement on that assumption. I do so because I cannot imagine that it will be at all practicable without that, without, that is to say, the silver coinage being convertible into gold. I cannot see how there can be a gold standard and an inconvertible silver currency.

521. That is to say the right to have gold for the silver?—I think that is essential. I cannot imagine how it would be possible to have a silver currency and a gold standard upon any other principle than that. If that were not so, if it were not convertible into gold, then it would be a forced silver currency, which is like a forced paper currency; there would be no automatic action by which the amount of silver currency in circulation could be adjusted to the demands of the time. It would be redundant at one time; there would be too little of it at another time.

Mr. Hermann Schmidt said:—

1725. Do you think it would be possible to have a gold standard in India, by stopping the free coinage of silver, without any considerable stock of gold in India?—No, my Lord.

1727. Do you think it would be a workable scheme?

—If you have sufficient gold, and are willing to pay the cost, certainly.

1728. Have you formed any idea of the amount of gold, that would be necessary?—I have been thinking of that. But I regret I cannot give a definite opinion, not knowing India. I have never been in India. It depends a great deal upon the ideas and the habits of the people there. But, if European countries are any guide, I can give you a few figures. In France the gold in the country is estimated at 160,000,000*l* sterling, the silver at 130,00,000*l* sterling, so, having more gold than silver they can maintain the parity. In Spain they have 8,000,000*l* sterling gold—the best estimates—and they have 25,000,000*l* silver in the country, so one-third gold is not sufficient there to keep the gold at par.

1729. (*Mr. Courtney*) What is the prevailing agio? —At present it is about 14 per cent. Italy is more remarkable still. Thay have 23,000,000*l* of gold in the country, and perhaps only 6,000,000*l* of silver and still there is a premium on gold.

1735. What is the proportion of gold and silver in Holland?—They have 90,000,000 florins in gold, and 130,000,000 florins in silver; these figures are according to the best estimates. In the Bank they have to day 40,000,000 florins of gold, and 22,000,000 florins gold bills, which they have the right to count as gold, which makes 62,000,000 florins against 84,000,000 florins of silver. So if I cannot answer your question about India direct, because it depends on other circumstances besides the proportion of gold and silver,—on the habit of the

people, and the condition of the country and the issue of paper,—yet I think that taking a reasonable view, one-third is the very least you must have in gold if you want to keep your silver circulation at par. Now, what is the circulation of India? 125,000,000*l.*?

Sir Frank Forbes Adam, C.I.E., said:—

1909. (*Chairman*) Do you think that it is certain that, under the circumstances of India, you could have a gold standard without a gold currency?—I do not think it is by any means certain that it would work. I think I have heard it described as trying to have a race horse without legs.

The extracts quoted above convey but an inadequate idea of the volume of evidence recorded by the Herschell Committee against the adoption of the gold standard. Of the twenty-eight witnesses who were examined by the Committee only twenty were asked their opinions about the possibility and desirability of closing the mints to the private coinage of silver with a view to the ultimate adoption of the gold standard, and eleven witnesses were against it and only nine were in favour of it. The majority was decidedly against the dangerous innovation and it is a matter for surprise that the Committee should have ignored the weight of opinion against the measure. Nor is it less surprising that they should have failed to discuss the preliminary question as to which was a more stable standard, gold or silver. Lord Courtney clearly pointed out

that "our judgment of what the Home Government should do in reference to the proposals of the Government of India must depend upon the view we take of the cause of the divergence in value that has arisen between gold and silver. In our report we have not examined this preliminary question, but I hold it the first to be determined." He then proceeded to state his own opinion thus: "I have come to the conclusion that the divergence between gold and silver has been to a large extent due to an appreciation of gold; and this opinion necessarily affects my judgment of the policy of the Indian Government, which is to adopt a gold standard instead of one of silver. This is to accept as unalterable, if not to intensify, the aggravated burden thrown upon India." The Home Government having stood in the way of any international settlement for restoring silver to its original position and the Government of India insisting that no other course than the one they proposed lay before them for rescuing them from their financial embarrassments Lord Courtney could consider of no other alternative to the closing of mints to the private coinage of silver.

Lord Farrar and Lord Welby also added that "the questions, whether gold has become more valuable in itself, or silver less valuable in itself, or whether both movements have taken place, and to

what extent each movement has gone, as well as the further question between bimetallism on the one hand and a universal standard on the other, are questions of which we have taken no notice, as we do not think that they fall within the scope of the reference to us." Lord Farrar and Lord Welby were members of a committee appointed by the Secretary of State for India in 1878 to enquire into the proposal of the Government of India to close the mints until the rupee should rise in value to 2s. or one-tenth of an English sovereign. The committee reported unanimously against the proposal and it was rejected by the Home Government. In their joint Note, they explain the reason why they had to change the opinion which they had expressed fourteen years ago. "We should even now have difficulty in recommending the closing of the Indian mints against the free coinage of silver, if it were not for the circumstance that a further heavy fall in silver is possible, and in certain contingencies imminent, and that any such fall may bring with it mischiefs and difficulties much greater than any which have yet been experienced." It is evident that they have been oppressed by a contingent fear that silver may fall and but for that fear it is probable that they would not have recommended such an extreme step as the closing of the mints and the conversion of the entire currency into so many token

coins. If they had time to discuss the previous question, namely, whether it was gold that was appreciating or silver that was depreciating, it is just on the cards that they would have come to a conclusion similar to that of Lord Courtney.

The fact that the majority of the witnesses examined by the Herschell Committee were against the closing of the mints, coupled with the reservations of Lord Courtney, Lord Farrar and Lord Welby, detracts considerably from the value of the recommendations finally made by the Committee and given effect to by the Government of India. There is however one more circumstance which ought not to be forgotten in this instance. The Committee did not subject to a critical scrutiny the case put forward by those who were against the eventual adoption of the gold standard with or without a gold currency. They were chiefly concerned with how to prevent the exchange from falling further and did not care what would be the effect upon the commerce and people of India by such a wild change in the monetary system of the country. It cannot be said that it was beside their scope. "The question referred to the committee by your Lordship," they say in the opening paragraph of their Report, "is whether, having regard to the grave difficulties with which the Government of India are confronted through the heavy fall in the gold value of silver, it

is expedient that Her Majesty's Government should allow them to carry into effect the proposals which they have made for stopping the free coinage of silver in India, *with a view to the introduction of a gold standard.*" The ultimate object of the Government of India having been to introduce a gold standard—and this has been made clear times out of number—and the Herschell Committee having been asked to enquire into the whole question, it was not only competent for them, but it was incumbent upon them, to say whether in the conditions of India silver was not preferable to gold, though steps might have to be urgently taken to prevent the depreciation of silver, and failing which, to empower India to settle herself with the Powers the question of maintaining a ratio between the two precious metals. The failure of the Committee to do so is deplorable.

It would be ungenerous to say so, but it seems as though Lord Herschell's Committee was appointed more to register the will of the Government of India, than make a dispassionate review of the whole question of Indian finance and the monetary requirements of the country. It is true that the Government of India were to a certain extent embarrassed by falling exchange, but it was not true that the embarrassment was of such a character that called imperiously for so drastic a remedy. The published accounts of the Government of India show that in spite of increas-

ed expenditure, the annual growth of revenue was sufficient to cover any loss by exchange and still leave a surplus. On page 226 of the Herschell Committee Report is given a table of the net expenditure of the Government of India in 1892-93, compared with 1875-76 and 1881-82. It appears that between the twelve years 1881-82 and 1892-93 the loss by exchange had risen from 2,886,596*l.* to 9,813,400*l.* or at 15*d.* per rupee, the rate in 1892-93, the loss was Rs. 9,235,744 a year. The growth of revenue between 1882-83 and 1892-93 was Rx. 14,311,000 or Rs. 13,010,000 a year. Making due allowance for additions and remissions of taxation, which give a net additional revenue of Rs. 80,000 a year, the growth of annual revenue comes to Rs. 12,930,000. Deducting the loss from exchange there was yet a saving of Rs. 3,794,256. Not only that. During the eleven years ending 1892-93 there were seven years of surpluses and four years of deficits and the surplus for the period totalled Rs. 3,915,484. This was by no means an unsatisfactory state of things and clearly showed that the embarrassments, such as they were, were not of a nature that could not have been tided over by the exercise of common prudence and economy.

But the Government of India had, even long before there was a visible depreciation of silver, come to the conclusion that gold was a better standard for

India than silver and attempted, though without success, its introduction. So early as 1872, the year in which Germany demonetised silver, Sir Richard Temple, who was Financial Member of Council, placed before Lord Northbrook, the Viceroy, a note strongly recommending the introduction of a gold standard. The note was indeed a very learned one, and was overloaded with the authoritative pronouncements of many economists of the orthodox school. The superiority of gold to silver as a standard of value was demonstrated by an array of opinions which included those of many economists of repute. But no action was taken by the Viceroy as gold was at that time appreciating and the question was allowed to lie over. In 1877 the Government of India replying to a resolution of the Bengal Chamber of Commerce, enunciated the following wise principle, from which how far they have deviated, is well-known: "A sound system of currency must be automatic or self-regulating. No civilised Government can undertake to determine from time to time by how much the legal tender currency should be increased or decreased nor would it be justified in leaving the community without a fixed metallic standard of value even for a short time." But in 1878 the Government of India proposed to close the mints to the coinage of silver till the rupee should rise in value to 2*s*. The intention

was to introduce a gold standard. Lord Cranbrook, then Secretary of State for India, forwarded to the then Chancellor of Exchequer, Sir Stafford Northcote, the despatches of the Government of India. The Secretary of State for India and the Chancellor of the Exchequer submitted the scheme to a Committee consisting of Sir Louis Mallet, Mr. Edward Stanhope, Sir Thomas Seccombe and Messrs. Farrar, Reginald Welby, Giffen and Arthur Balfour. The Committee reported on the 30th April 1879 that "having examined the proposal contained in the despatch, they were unanimously of opinion that they could not recommend them for the sanction of Her Majesty's Government." On the 24th November 1879 the Treasury replied in detail to the proposals of the Indian Government from which the following may be read with interest :—

"My Lords need not point out that a change of the Currency Laws is one of the most difficult tasks which a Government can undertake, and that it is most unadvisable to legislate hastily and under the influence of the pressure of the moment, or of an apprehension of uncertain consequences, upon a subject so complicated in itself and so important to every individual of the community, in its bearing upon the transactions and obligations of daily life.

"It is not proved that increase or re-adjustment of taxation must necessarily be the consequence of matters remaining as they are, for nothing is said

about reduction of expenditure, and equilibrium between income and expenditure may be regained by economy of expenditure as well as by increase of taxation. Further the cost of increase of salaries may be met or at least reduced by a careful revision of establishments.

"A perusal of the despatch leads to the conclusion that the Government of India are especially anxious to put an end to the competition of silver against their own bills as a means of remittance to India. But my Lords must ask whether this would be more than a transfer of their own burden to other shoulders; and if so who would eventually bear the loss, and what would be the effect on the credit of the Government and on the commerce of India.

"If, then, a case has been made out, which my Lords do not admit, for an alteration of the Currency Law of India, the particular alteration which the Government of India propose, could not, in the opinion of the Treasury, be entertained until the doubts and objections which have suggested themselves to my Lords are answered and removed. These obligations are founded on principles which have been long and ably discussed, and which are now generally admitted by statesmen, and by writers of accepted authority, to lie at the root of the currency system.

"It is no light matter to accept innovations which must sap and undermine that system, and my Lords have, therefore, felt it their duty plainly—though they hope not inconsistently with the respect due to the Government of India—to express their conviction that the plan

which had been referred to them for their observations is one which ought not to be sanctioned by Her Majesty's Government, or by the Secretary of State."

Many passages in the letter of the Treasury are omitted, but the above extracts clearly show the view the responsible authorities in England took at the time. But it was not long before the Government of India re-opened the controversy. In February 1886 they again addressed the Secretary of State and Lord Randolph Churchill forwarded their letter to the Treasury. The reply of the Treasury was dated 31st May 1886 and signed by Mr. Fowler, who afterwards as President of the Currency Committee in 1898, recommended the adoption of the gold standard. The Treasury stuck to their guns and replied:—

"The Treasury find no reason stated in the despatch of the Government of India in the present year, which induces them to dissent from the conclusions thus sent forth on the authority of Sir Stafford Northcote as to the results of any attempt artificially to enhance the gold price of silver.

"It has been the policy of this country to emancipate commercial transactions as far as possible from legal control, and to impose no unnecessary restrictions upon the interchange of commodities. To fix the relative value of gold and silver by law would be to enter upon a course directly at variance with this principle, and would be regarded as an arbitrary interference with a natural law, not justified by any present necessity.

"The observation of the Treasury in 1879, 'that nothing is said about reduction of expenditure,' seems to apply still more strongly to the existing situation, and it may be safely concluded that the control of its expenditure is far more within the reach of a Government than is the regulation of the market value of the precious metals."

It must be said in passing that it is greatly to the credit of the Conservative Government that their principles in currency matters were sounder and more sensible than those subsequently disclosed by the Liberal Government, and that they had the courage to denounce and veto the proposals of the Government of India, on which they had set their hearts, and which they pressed for years, undeterred by false notions of the loss of their prestige. It was given to the Government of Mr. Gladstone and that eminent financier Sir William Harcourt to approve of an innovation of which the dangers and the mischiefs, the Conservative Governments of 1879 and 1886 clearly foresaw. The policy of Lord Salisbury to carry on the Government of India by means of private letters, which Mr. Valentine Chirol condemns with such a superior air, and which Lord Morley approves in theory, has never been so strongly vindicated as in the case of the Indian currency changes. If the Liberals had only cared to be as strong in resisting the inroads which the Government

of India were making on the authority of the Cabinet constitutionally vested in them, and had not meekly submitted to their crude suggestions, our monetary standard would not have been so easily changed. So far as we remember, neither Sir William Harcourt nor Mr. Gladstone ever maintained that gold was preferable as a standard to silver in India, though they did not disguise their opposition to international bimetallism. Their faith in gold was supreme, and they were perhaps right so far as it concerned England. But it was incumbent upon them to satisfy themselves that the change they approved and sanctioned in the Indian monetary system was necessary and good. They forgot these things as much as the Lord Herschell Committee, both of whom must be fully acquainted with the previous history of the question and the persistent opposition of the Treasury to the proposals of the Government of India.

Those who have followed with any degree of interest the debates that took place in the House of Commons since the Government of India closed the mints must have been struck by the remarkable force and ability with which Unionist leaders like Mr. Chaplain and Mr. Balfour placed the case of India as affected by that measure, and Indian leaders owe them a debt for their advocacy which they cannot repay. Apart from the fact that the Government of

India wanted the measure, and a Committee had set the seal of their approval on it, the only reason Mr. Gladstone's Government could advance was the illustration of France. But the case of France in no way justified the confidence which the Government had placed on the Indian adventure. France was in name a bimetallic country since 1803, but for all practical purposes it was a silver country till 1850 and during that time there was very little coinage except that of silver. From the figures supplied by Dr. Soetbeer to the Royal Commission it appears that the coinage in the 30 years ending 1850 was as regards gold 18,000,000*l*., and as regards silver, 127,000,000*l*. During these years the market-value of silver was on the average 15·79, the legal ratio in France being 15·50. The result was France had silver pouring into it and to all intents and purposes it was a silver country. The Californian mines were discovered in 1848, and in 1851 the Australian mines, which changed the relative positions of gold and silver. During the following 20 years the average value of silver in the open market was 15·41 being ·09 less than the legal ratio in France. The result was silver was drained away and in 1870 there was no excess of silver left in the Bank of France. The coinage during this period was 28,000,000*l*. of silver and 257,000,000*l*. of gold. France had thus been converted from a silver into a gold country by the

natural operation of economic laws—a fact which is entirely ignored.

The most momentous and, generally speaking, ill-advised step was taken by Germany when in 1872 it determined upon demonetising silver. Germany was labouring under the false impression that what made England commercially and industrially great was its currency and not its men or their brains and it is open to question if it could have successfully maintained the gold standard, but for the heavy indemnity France had to pay as a result of the Franco-German war. The other Powers soon followed. The United States were also engaged with their immense amount of forced paper currency and were laying violent hands upon all the gold they could get in the States. Italy in a similar way was engaged with its currency. All these told upon the flow of gold and silver in France, which by this time had associated with itself the other four countries in the Latin Union, and they found that the gold would have ebbed away from them if they had stood by the bi-metallic principle. They suspended one of the three fundamental principles of the Bi-metallic Union, the principle, namely, that there was to be free coinage of silver and gold at the mints of these five countries. The coinage of silver was suspended and then came the question as to what France was to do in order to maintain in the open market the parity of value at the point of 15½

to 1. They had 50,000,000*l*. of silver in excess of their requirements and the way they managed to keep up the parity was by withdrawing from circulation the redundant silver which is in the Bank of France and at any moment the Government must be prepared to risk the loss on it, unless silver recovered, as a price of bi-metallism. France began to change its currency at a time when it was convenient for it to do so—having coined more than 250,000,000*l*. sterling within 20 years previous to the change and when the coinage of silver was under 30,000,000*l*. Is India so favourably circumstanced? The lesson of France is a lesson of caution and the exercise of common prudence: it is opposed to heroic remedies.

So far as the Government of India are concerned their belief has been firm that very little gold would be necessary to maintain the parity of exchange between gold and silver and work the currency system on the lines on which it is worked in France. In asking the Secretary of State for India to pass an Act for borrowing 20,000,000*l*. to establish a gold standard, Lord Elgin's Government declared in 1898 that by melting down ten crores of rupees and not coining new rupees, "we shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense; and this last may possibly not be necessary at all." They were so simple as to

believe in the efficiency of their prescription that they wrote: "The amount of coin required for the needs of commerce increases every year; and *as we permit no increase in the amount of silver coin,* we may reasonably expect that the effect of the increasing demand for coin will be to raise exchange to a point at which gold will flow into the country, and remain in the circulation of it. The position will thus become stronger and stronger as time goes on, but at the beginning at least gold will not be in circulation in the country to more than the extent to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold remain little more than a margin, retained in circulation by the fact that its remittance out of the country would create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or at the very least to stop the outward current of remittance." What a sad commentary the subsequent events have proved to be on the complacent hope expressed by Lord Elgin's Government! By restricting the rupee circulation to 120 crores, it was hoped that gold will be forced into India; but no gold came and we had to coin another 100 crores to satisfy the silver-hunger of the people who so foolishly turn away from the yellow metal. But

whether the silver-hunger is real or fancied seems to be in doubt, for Mr. O'Conor was of opinion that the volume of the currency that circulated in 1898 was sufficient at all times for the wants of the population!

Here then is one glaring instance of official ignorrance of popular prejudices. They fondly believed that what the people of India really wanted was gold and not silver. The opinion was shared of course by many Anglo-Indians. The Herschell Committee quote the opinion of Sir Charles Trevelyan in 1864 (quoted also by Sir Richard Temple in his note to the Viceroy, Lord Northbrook) about the "determination of the people to have gold" and that "the Government would be cordially seconded by them in any attempt to introduce a gold currency on a sound footing", which Sir Charles Wood endorsed in the same year. The Committee was convinced that the observations of Sir Charles Trevelyan and Sir Charles Wood are "as applicable at the present time as when originally made". A reference to the statistical tables will show that the imports of silver are considerably in excess of the imports of gold and even after the closing of the mints silver was consumed more eagerly than gold. The net import of silver for the five years previous to the closing of the mints were 200,480,838 ozs. and for the five years since that event 178,660,778 ozs.

Asked as how that could be explained Mr. O'Conor admitted: "I do not think any one can explain it. It has been a subject of astonishment to us ever since the closing of the mints that there has been such a demand. Before the closing of the mints, practically all the silver imported, with the exception of about 4 per cent, passed into the mint and was coined. Then the assumption used to be that at least half of that remained in the currency as coined silver, and the other half was melted down. But it looks now judging from these figures, as if that inference was not quite correct, and that a very much larger proportion of the rupees that were coined must have been melted down into ornaments". Sir Edward Baker, while Finance Member, said in reply to criticisms about excessive coinage, that the new additions were made for the purpose of trade. There is no reason why with the balance of trade in our favor gold should not have been forced into circulation; and the fact that it was not done so and that on the other hand the need for silver coinage was so persistent that the volume had to be doubled shows that there is no gold-hunger in India to the extent that is necessary for establishing a gold currency. Of course gold is annually imported, but there is a a world of difference between the use of gold for currency and its use for ornaments or for purposes of hoarding.

In deciding upon the monetary standard of a country, not only has the attitude of the people towards the respective metals to be taken note of, but their economic condition, their social, industrial and agrarian progress, have to be carefully consulted and the possible consequence the change of currency can have upon them must be properly apprised. That the people would not have gold circulated among them must by now be certain. Gresham's Law operates and the baser metal drives out the better metal in every country, whether mono-metallist or bi-metallist. As the more precious metal, gold is always sure of being driven out of circulation and hoarded or used into ornaments in India and the national weakness cannot be eradicated in a day. If the Government of India are satisfied with what Sir John Lubbock called the exchange standard, perhaps it might be possible to do so for some time longer, though we have our doubts if under the conditions of India it can be maintained for long. But the Government have no such idea. They have declared it as their aim to introduce an effective gold standard. Mr. Meston does not want theoretical disquisitions, but advice which is calculated to help towards the development of their policy. What is the amount of gold necessary to maintain the gold standard? How can that be accumulated? And if accumulated how can that be prevented from being

drained away? We have given the example of France to show that the transition from silver to gold standard was possible because France had coined a little under 300 millions within 20 years previous to the date of change, and is prepared to risk the loss on the redundant silver, which, as if ashamed to see the light of day, lies buried in the vaults of the Bank of France. Will India have to make any sacrifice and if so what?

From the observations made by Mr. Meston, as well as from the declarations of many responsible authorities, the object of the Government is by no means to convert the silver currency into gold, for obviously they cannot do so. The transactions in India are so very small and the people are so exceedingly poor that there will be no need for gold among them for their daily transactions. Sir David Barbour was of opinion that the gold standard would be maintained effectively with a small amount of gold, and that gold in excess of 15 millions in active circulation would be unnecessary and might be a source of positive inconvenience. Sir John Mackay's estimate did not go higher. Mr. Meston could not see much wrong with the 25 million standard. Mr. Schmidt was of opinion that one-third of the currency must be in gold if the silver circulation is to be kept at par and taking the silver currency at 240 millions, we must have 120 millions gold. Lord

Hillingdon, who was brother-in-law of Lord George Hamilton, was of opinion that the amount should be 75 millions. Sir Robert Giffen estimated the need at 50 millions. Lord Avebury, better known as Sir John Lubbock, was emphatic that there cannot be a gold currency in India unless, supposing that currency was 130 millions sterling, 100 millions were in gold or in notes issued against gold. Lord Hillingdon who had considerable knowledge in banking, Sir Robert Giffen and Lord Avebury, were satisfied with their respective recommendations on the basis of the silver circulation being 120 millions. But at present it is nearly double. The lowest estimate then for maintaining the parity of exchange is 100 millions and the highest 200 millions. We have only to mention these estimates to show how dangerously optimistic are the financial advisers of the Indian Government who think they can establish a gold standard after the model of the French and weather any storm with a 25 million standard. If these authorities are wrong, and we rather fancy they are, we have prepared for ourselves a chasm in which when we shall have fallen is only a question of time.

The Government of India in common with the advocates of the gold standard have been labouring under the impression that for a gold standard gold currency is not necessary. In paras 69—78 of their Report the Herschell Committee examine the various

currency systems of the world and come to the conclusion that "it has been found possible to introduce a gold standard without a gold circulation; without a large stock of gold currency and even without a legal convertibility of an existing silver currency into gold." But they add the warning that "before concluding that these precedents are directly applicable to the condition of things existing in India, it is necessary to examine them carefully. There is no one of the countries above referred to in which silver has been so largely and so exclusively used as in India during the last half century, and in most of them the people have been for long accustomed to deal with their silver coins on the basis of a double standard. To the Frenchman 5 franc pieces, to the American dollars, have for generations been not only so much silver, but the equivalent of a certain quantity of gold; and it would have been a shock to his habits and mode of thinking to treat them otherwise. It may be easier to maintain an old and well-known silver currency at a gold value in countries which have been bi-metallic, and in which large quantities of gold and silver are already in circulation, than to introduce such a system into a mono-metallic silver country such as India." The case of Austria-Hungary and Holland and its East Indian Colonies, they declare, is very much different from that of India inasmuch as in the case of one

the inconvertible paper currency was probably one of the chief factors which made a fundamental change in the standard necessary, and in the case of the other the change of standard was adopted when the relative values of gold and silver had not parted as they have since done, and especially in the case of Java, it has always had the same standard and the same currency as Holland.

If this is clearly borne in mind there would not have been any wild talk about divorcing the standard from the currency. The question was much discussed by the Fowler Committee and considerable expert opinion was taken on it and the decided conclusion was that no such divorce is possible. The Right Hon'ble Lord Rothschild, who cannot be convicted of being a theorist, but is a practical business-man, pointed out that a gold standard was inseparable from a gold currency. The essence of the gold standard, he said, was convertibility from silver into gold and the Government should be able to make such conversions at all times. He not only thought that a gold standard without a gold currency was impossible, but that if a gold standard and a gold currency were to be introduced together, they should be prepared on occasions to send back gold to London. Further questioned by Lord Balfour of Burleigh why he thought that no divorce between a gold standard and a gold currency was possible, he

replied that it was based upon experience that unless Government had the gold coins to give to those who wanted to export and not bills, the gold standard must fail. He did not believe in artificial devices. Sir John Lubbock, an eminent authority on banking, was examined at length and he said:—

11,033. Do you draw a distinction between a gold standard and a gold currency?—I quite agree with Lord Rothschild that you cannot have a gold standard without a gold currency, and I should like to go further, and say that what I have always understood to be a gold currency is a currency of which the main amount is in gold. Of course, there may be a subsidiary currency, whether a token currency or otherwise, in other metals, and these probably would be; but a country that had only, say, 20 millions of gold, and 100 millions of silver, would, I think, be properly described as having a gold and silver currency.

11,042. You say we cannot have an effective gold standard without a gold currency?—As long as the main currency is in rupees, and all contracts are made and taxes calculated in rupees, and transactions effected in rupees, and rupees are legal tender to any amount, it appears to me that the rupee is really the standard.

Sir John Lubbock added that a gold standard cannot be said to exist unless the Government was prepared to give gold to rupees at a certain fixed rate.

The Right Hon'ble Lord Aldenham, who was a

Director of the Bank of England since 1853 and a Governor of the Bank from 1875—77 said :—

12,807. You say that a gold currency is inseparable from a gold standard?—Certainly.

12,808. A gold currency would be wanted for a very small amount in India; at least I am putting that to you; I am not expressing my own opinion, I am putting that to you as a hypothesis?—I understand; but I should put the matter differently. In saying that a gold currency is inseparable from a gold standard, what I mean is that that which has not a gold currency is not a gold standard. That is quite a different proposition. I do not mean to say that when you have a gold standard—what you call a gold standard—that necessarily involves the use of gold in great quantities; but I say that it is not a gold standard, if a man can pay his debts in any quantity of silver. You might just as well call it a platinum standard or anything else.

12,809. What standard is existing in India at the present moment? You have not an unlimited coinage of silver?—I have given my explanation of that. There is no standard of India but a debased standard.

To these, many more valuable opinions may be added even from the evidence recorded by the Fowler Committee. But the truth of this should be obvious to any one of unprejudiced mind and common understanding. If men like Lord Rothschild, Sir John Lubbock and Lord Aldenham cannot discover any possible means of divorcing the monetary stand-

ard of a country—that is that which serves the purposes of money, viz., a measure of exchange, a standard of value and an instrument of deferred payment—from the currency, and are sure that any attempt that way would lead to disaster, surely practical administrators who have a contempt for theory may well-nigh pause. If, of course, what Lord Avebury called the Exchange Standard is to be the principal feature of the Indian monetary system, then there is no need for any strong accumulation of gold reserve, and we may be spared going through the travail through which Russia and Austria passed before they adopted the gold standard. And even now Russian and Austrian statesmen are not satisfied with the sacrifices they have made and they are by no means certain of their gold standard establishing itself in full security. But the ambition of Indian statesmen is to regard the present stage as only a period of transition which should be passed with as little violence as possible before the full haven of a gold standard is reached. And the wide discrepancy between the estimates of Anglo-Indian officials and the banking and financial experts of England about the gold necessary to ensure the convertibility of rupees into sovereigns at a fixed ratio can only be due to a fundamental difference in the conception of a monetary standard : the Government of India think that the chief purpose of the gold standard is only

to facilitate foreign trade while others believe that the monetary standard of a country has as much to do with internal trade and transactions.

This is indeed the most important thing that is entirely ignored in all the controversies about the change of the Indian monetary system. It must be admitted by every one who has not a direct pecuniary interest in the import and export trade of India that the internal trade of the country has a far greater claim upon the attention of those who manipulate the currency than the foreign trade. It was urged before both the currency committees that 80 per cent of the trade of India being with gold-using countries, it would be in her interest to adopt a gold standard, to which Lord Aldenham rightly replied that the trade with gold-using countries was 5 rather than 80 per cent, if the internal trade was included and that was how the calculation ought to be made to arrive at a fair percentage. In deciding upon the monetary standard best suited to the country attention must naturally be paid to the standard that is best suited to the country under its peculiar economic condition and environment. Is silver best suited to India or gold? Except Lord Farrar, the opinion has been that silver is the best metal; and there is no doubting it. The transactions in India are so small that the metal the large masses of people should require is silver and not gold. It is only in

big transactions that gold will have to pass hands, but those who use gold are those who know best how to economise the use of precious metals. The relative importance of gold and silver as measures of exchange cannot be appraised even from the fact that the foreign trade is only 5 per cent of the total trade; for the foreign trade is settled by bills of exchange and not by the actual passage of money, while the internal trade is carried on entirely by the use of coins. Compared with the relative service which gold and silver perform in the economy of trade, it should be one is to more than nineteen. Sir David Barbour is therefore right in saying that 15 millions will do for circulation,—in fact more than that cannot circulate—but that is altogether different from saying that more than 15 millions will not be required to maintain the gold standard and ensure its convertibility.

The fact of the small quantity of gold that will be enough to circulate and the large amount of silver that cannot be demonetised or displaced by gold is the greatest source of danger and uncertainty as well as of heavy financial burden. In the first place as Sir Robert Giffen pointed out before the Fowler Committee, even if India had a gold standard, the reserves and the till-money of bankers and leading merchants throughout the country would continue to be in silver (because that is the usual

money of the people) and any gold reserve kept in order to maintain these various currencies at a level with gold would be additional to the usual money arrangements of the country. There would consequently be two reserves, one in silver and one in gold, and, apart from the complication, this would be a heavy burden to the community. Even in England there are silver reserves and till-money in the banks, and even copper reserves and till-money, although gold is the standard. But they are unimportant in England where the gold currency so much preponderates; but in India where silver will be the preponderating currency, the banks must have a reserve of till-money and token money in silver. But if there is to be a gold reserve to ensure the convertibility of the token money into gold, the amount of that reserve would have to be determined on different conditions and practically there must be two reserves. That is one source of financial burden.

The second source of embarrassment and financial loss is that which comes of the circulation of a huge mass of unregulated currency which cannot be expanded or contracted as the needs of the time may warrant. The best and the only honest standard is that which is not hampered by artificial devices in its expansion or contraction according to the whim of officials. Free trade in currency is not only theoretically sound but practically convenient; and protec-

tion leads to abuses of a grave nature. The worst of converting the huge currency of India, now about 225 millions, is to make money scarce when trade is brisk and create an artificial redundancy when it is slack. Mr. William Fowler is responsible for the statement that an Under Secretary of State for India once said in the House of Commons that "we cannot trust our officials." At all events no official, however clever he may be, can be trusted to make a proper estimate of the actual currency need of the country and regulate it accordingly. State-regulated currencies have uniformly failed. So high an authority as Mr. O'Conor thought that 120 millions were enough for all times, but within ten years Sir Edward Baker assured us the currency had very nearly to be doubled! Such is the unerring instinct of the official! Even those who do not believe in the quantitative theory must admit that the doubling of the currency in the short space of a decade cannot but have an effect in raising prices even in uneconomic India. Nor has experience shown that the Indian official is equal to the task. In fact it is easy for him to remove the stringency by putting new coins into circulation, but when there is a visible redundancy there is no machinery to contract it: the redundant coins cannot be melted without serious loss and no Government is likely to face that risk every now and then.

Thirdly, an indebted country cannot adopt a gold standard without serious loss. No doubt it would be difficult to calculate the dues with a silver standard. That was exactly the difficulty of the Indian Finance Department. But there is no use merely calculating the interest; it must be paid. Brazil, the Argentine Republic, Uruguay, Chili, Portugal and afterwards Italy are instanced by Sir Robert Giffen as countries that had to give up the gold standard when the creditor knocked at the door. The creditor countries are gold countries and there is a great squeeze for gold when these other countries are called upon to pay their debts. India is in the peculiar position of having to export 20 millions worth of produce every year more than she imports and for no economic return. This huge sum cannot be paid as advantageously if gold is the standard as it would be if silver were the standard. So much of the gold as would not be absorbed by India if she retained the silver standard, would go to raise the gold price of commodities and fewer quantities of Indian produce would be enough to pay the creditor. This is an aspect of the question which is entirely ignored even by Indian "gold-bugs". They should know that what is advantageous to the creditor is necessarily disadvantageous to the debtor and if the gold currency is to his interest, silver currency is entirely to ours. It was the comparative stability of silver

that enabled us to tide over the periods of difficulty and embarrassment through which Europe passed when gold was appreciating. The large output of gold—it is now annually ninety millions—has raised gold prices which has come as a welcome relief to the Indian exporter and India loses now much less than she would if she went in as another candidate for the gold scramble.

Fourthly, sufficient gold cannot be obtained to maintain the gold standard. When the Fowler Committee was taking evidence just a decade ago, the annual output of gold was between 50 and 60 millions and no doubt it is now 90 millions. This has naturally led some to believe that a portion at least of the annual output can be secured by this country. That is again a misconception. It may not be that because there is an increase of gold production, there will be enough of it to go round everywhere. That is the mistake many Governments made about 40 years ago and which they ought not to make again. As Sir Robert Giffen pointed out, if the abundance of gold continues, and causes a great accumulation in the banks and a great rise of prices, the rise of wages consequent upon it, in the old countries, and the general prosperity, would lead to the consumption and absorption of a much larger amount of gold than Lord Rothschild had calculated upon when he said that we can start the experiment of a gold

standard with a 20 million reserve. Sir Robert Giffen believed that the demands for the old countries themselves, in the case supposed, might be incalculable and that they would be very large and that the difficulties of countries in a less favourable economical position in adopting a gold standard would still be very considerable. This is being verified in the actual experiences of western countries and there is no superfluity of gold in the banks which they may send to India and to countries vainly panting for the yellow metal.

During the last two years there has of course been an influx of gold owing to the brisk export trade, but the shipments have not been as much as they might have been and the Secretary of State for India has been selling Council Bills far more than his requirements. But the mercantile community in India have strongly protested against it as the action of the Secretary of State prevents the import of gold and the building up of a strong gold reserve. This of course cannot be helped in view of the paucity of gold in England and the necessity for strengthening its reserves. This is one of the contingencies that must have been foreseen by far-sighted statesmanship. The Secretary of State for India is a member of the cabinet and a servant of the British people and when their trade requires all the available gold they can lay hold upon there is no use grumbling against

a Minister who obeys their behests first and considers the requirements of India only afterwards. Whatever the advantage of the mother country and the dependency having the same monetary standard, it is inevitable that the claims of the dependency must always be subordinated to those of the mother country when there is a conflict between the two. And the India Office is only following the rules of self-preservation, by preventing as much as possible the influx of gold into India from England. However much we may deplore it, the financial interests of the United Kingdom will always have the preponderating voice in the regulation of the shipments of British gold to India and the warning has been sufficiently given by those who opposed the gold standard before the Fowler Committee.

This is in ordinary times and when Great Britain is not engaged in any international war. What would be the consequence if there is a European war? Do the financial advisers of the Government and the Indian and Anglo-Indian "gold-bugs" seriously believe that there can be the shipment of a single sovereign to India or that a drain of all the available gold from India can be prevented? But a European war is not the only contingency to which the gold currency of India is exposed. What is more common and more likely to occur are internal causes mainly affecting the Indian people. There are two dangers

to which we are exposed and they are frontier wars and famines. Either of these is enough to destroy the edifice Anglo-India is building; but both of them combined will result in a catastrophe of which it is impossible to foresee the magnitude. Nobody can maintain that with an economic drain of no less than 25 millions sterling per year, it will be possible for us to keep a few millions in reserve or in circulation and that an effective gold standard can be maintained. We shall be safe so long as the balance of trade continues to be in our favour; but the moment it turns against us and we fail to meet foreign obligations the exchange will fall—unless of course the Secretary of State is empowered to raise sterling loans.

Fifthly, even if you get the gold you cannot keep it going. The Indian habit of mind is against using the more precious of two currencies that circulate at a time and, gold as more precious than silver, will be hoarded rather than circulated. Apart from the fact that the transactions which call for the use of gold are infinitesimal compared with those that require silver, except in very few instances, we do not believe that gold will be put in active circulation unless an artificial rupee famine is created. Attention has been drawn in some quarters to the payment of sovereigns for Government dues, but a people do not change their economic

habits so soon and they must be regarded more as isolated instances, as accidents, rather than a change in popular ideas, till stronger proofs are forthcoming that the people are willing to part with gold as they would with silver. Hasty generalisations in matters like this are always harmful and especially when the ingrained tendency is to hoard the precious metals, the circulation of gold cannot be a matter of common occurrence. What is likely to happen is the hoarding of gold instead of silver and those who tender gold must be only those who are actively engaged in trade, who are big capitalists or land-owners in advanced provinces. The number of these must be very limited in any case and to our mind the contagion is not likely to spread even among similar classes.

We have ventured to state so far what appear to be chief obstacles in the way of the introduction of the gold standard. Mr. Rudyard Kipling has been much abused for his statement that the East is East and the West is West and never the twain shall meet. But his poetic fancy has some truth in it and there are reasons why the institutions of the West cannot be lifted up and transplanted into India wholesale. Each people have their own traditions, habits, feelings and ideals which cannot be altered in a day. As Mr. Stephen Ralli said before the Fowler Committee every country has a medium

of circulation and people are accustomed to different media in different countries. Notes are suitable for Russia and are preferred there to gold: we in India are accustomed to rupees as being economically the best and it is not exaggeration to say that close upon 90 per cent of the population do not know if the sovereign is legal tender. To them silver is the only legal tender and also the only possible legal tender. Their transactions are so small, as also their debts and assets, that the sovereign is of no use to them. Silver must remain under any circumstances unlimited legal tender and if so, we shall never have a pure gold standard; we shall have an ugly amalgam of silver-gold standard.

Lastly, in every country which has a gold standard the use of gold is economised. Ninety-nine and a half per cent of the trade of England is done not by the actual passage of gold from hand to hand, but by paper transactions. The credit institutions have so highly developed that with very limited gold the trade of the world is financed by the London Banks. It is simply a question of adjustment of accounts between the banks every day by the use of clearing houses. If the transactions have to be paid for in cash, it is undoubted that international trade must collapse. Even within the country the use of gold is economised as much as possible. Cheques and other instruments have taken the place of money. It is

common knowledge that if every depositor wanted to withdraw his deposits from the banks, none of these will be able to pay at once. It is representative money that is the chief medium of exchange. Of course it all rests upon gold and the gold in the Bank of England, but it is worthwhile seriously considering whether without representative money and without credit institutions so highly developed, it would have been possible for England or any other country to maintain the gold standard. We are not sure if there is gold enough for that work. It is true that of late years a limited section of the Indian people have been taking kindly to the use of currency notes; but a century will not be too long a time for us to have reared, developed and perfected credit institutions in so large a country as India and among so widely differing a people as Indians, to the extent they have done in gold-using countries. So long as for most of the transactions precious metals have actually to pass hands, so long must we fail to have the gold standard. Supposing that gold is declared the only legal tender, say for debts above Rs. 100, and the mint is open to the coinage of gold, what will be the amount of gold that we shall have to circulate? It has already been pointed out on the authority of eminent financiers that we must have anything between 100 and 200 millions to maintain the gold standard. Can we manage to have 150

millions in circulation? How long can we do that in our present economic conditions? We are not unduly nervous, but we wonder if it will last a twelve-month. Many things in India are possible, but not this. Economic laws can no more be evaded than Canute was able to stem the surging waves of the sea.

CHAPTER II.

THE SUGGESTED GOLD CURRENCY.

THE question of the introduction of an effective gold standard is said to be engaging the anxious consideration of the Government of India, and we have been told that during the Simla season the introduction of a gold currency will be discussed in the Finance Department. So far as the Government of India are concerned, it is not altogether a new question: they have been trying during the last half a century to displace silver by gold and though like freedom's battle they have been baffled oft by the persistent attitude of Conservative Governments, the dawn of success was first witnessed when the mints were closed to the private coinage of silver in 1893, and later on the sovereign was made legal tender in 1898 and exchangeable at Rs. 15 a piece. The attempt to introduce a gold currency by opening the mints for the coinage of gold—whether it be ten rupee or fifteen rupee pieces—is only a logical development of their ambition to place the monetary standard of this country on a par with that of the United Kingdom. Last year the Financial Secretary of the Government of India chided the critics who discussed the question on its theoretical aspects and

called for practical schemes for the development of their policy and the response was made this year by Sir Vithaldas Damodhar Thakersay who suggested the opening of the Indian mints for the coinage of ten rupee gold pieces.

It will be conceded at the outset that the question is not so easy of settlement as both Mr. Meston and Sir Vithaldas seem to believe and that the problem must be discussed from many points of view that do not lie very much on the surface. It is true that the opening of a branch of the royal mints at Bombay for the coinage of gold had reached even in the days of Sir Clinton Dawkins the stage of receiving royal assent, but somehow it has made no further progress, and the royal assent has been delayed. Whether it was due to the jealousy of the mint authorities in England as we have been recently told or whether it was the India Office that really vetoed the proposal, the wisdom of introducing gold currency into India has been much doubted. Even the Anglo-Indian mercantile community, in whose interests primarily the mints were closed to the coinage of silver, did not appreciate the wisdom of introducing a gold currency, however much they desired fixity of exchange. The Bombay Chamber of Commerce observed that "gold can only, if at all, be introduced into circulation under conditions of the money market which are ruinous to both foreign

and internal commerce, and can only be retained in circulation so long as those conditions are maintained." The Bengal Chamber of Commerce observed that "a gold currency is entirely unsuited to the requirements of this country," and regarded it as "an experiment surrounded with difficulties which are not likely to be solved for a considerable time." It was not apparent to the Karachi Chamber whence the gold necessary for the establishment of the gold standard was to be obtained, and that without a free importation of gold and a large reserve of the metal in this country, the possibility of the Government of India maintaining a gold standard appeared to them open to serious question. The Madras Chamber regarded the task of establishing and maintaining a gold coinage as Sisyphean and suggested the adoption of the Lindsay scheme with some modifications.

These expressions of opinion must undoubtedly have an effect upon the policy of Government and unquestionably the abeyance of the scheme is in consonance with the all but unanimous opinion of the mercantile community. It is remarkable as illustrating the rapid development of public opinion in this country that although the Anglo-Indian mercantile community was opposed to the coinage of gold currency ten years ago, and, we fancy, sticks to it still, Indian opinion should veer round in favour

of it. Especially in Bombay among a certain class of men the feeling is strong that we should adopt a a gold standard based upon gold currency and give up the exchange standard which we are at present maintaining. The ambition of some of them seems to know no bounds, and it was seriously proposed that during the next five years the Government of India should increase the gold reserve to fifty millions, so that we may have the proud distinction of helping the Bank of England with loans whenever it may need it. Sir Vithaldas Thakersay has not gone so far, but contented himself with the remark that ten rupee gold coins would circulate among the people to an extent that will ensure the safe convertibility of rupees into sovereigns—for convertibility is the essence of the gold standard. Where the gold is to come from, whether it will be tendered for coinage by the people and whether instead of circulating it will not go to swell the hoards—these are questions which Sir V. D. Thakersay had not cared to discuss; but they are the fundamental questions that have to be discussed and adequately solved if the attempt is not to end in disastrous failure.

In introducing the Budget for this year, Sir Fleetwood Wilson made certain observations which seem to encourage one in the belief that we are on the eve of a new economic era. He observed a

change in the monetary habits of the people and placed certain figures to support that view. He drew attention to the large circulation of notes and to the fact that no necessity was felt during the year for coinage of additional rupees contrary to all expectations. In Parliament, Mr. Montague, the Under-Secretary of State for India, who, as we all know, has supreme contempt for what may be called 'terminological inexactitudes' coupled gold along with silver and notes as important forms of currency. Asked by Mr. Moreton Frewen if there was any basis for coupling gold along with silver and notes, Mr. Montague of course pleaded his inability to say definitely how much gold was actually circulating in India or what portion of last year's import of bullion and sovereign went into circulation. Of £15, 419,163 imported last year, only £7, 772, 301 were sovereigns and other British coins; the rest must evidently have been hoarded or cast into ornaments. The total circulation of rupees must be about 220 crores, and even if 25 per cent. of the sovereigns imported went into circulation, which is assuming too much, the gold currency could not have been more than 1¼ per cent. We do not know whether it can be called an important form of currency or whether any safe conclusion can be drawn from the figures supplied by the Under-Secretary in Parliament. Having regard to the

habits of the people, it is safe to assume, that ninety per cent of the sovereigns imported went into the goldsmith's crucible or were hoarded rather than that they swelled the volume of the currency.

But it is upon what the habits of the people are that opinion seems to be so very certain and assured among those who plead for the introduction of the gold standard based upon a gold currency. They have been contending that India was not unaccustomed to gold, rather gold was the prevailing form of currency before silver was made sole legal tender in India in 1835. So high an authority as Sir Richard Temple wrote that the prejudices of the people, if they have any, are entirely in favour of gold. He said: "The imperial dynasties which preceded us in India had a gold currency. Some comparatively ancient gold coins have still a limited circulation and enjoy the highest repute...My own belief is that few nations have in their own minds a higher appreciation of gold than the native of India." This may be admitted, but it cannot be equally admitted that because more than eighty years ago gold mohurs circulated in limited quantities among the people, the sovereign will be circulated now. We have no doubt a partiality for gold, but our prejudices are in favour of keeping it and not parting with it. If one had thirty rupees, one sovereign and fifteen rupees and had a call for half the amount, he would

rather part with his silver coins than his sovereign. He would hoard his gold and try to preserve it as much as possible and will not part with it unless compelled to do so. Lord Morley spoke the other day of the Indian habit of mind and the habit is to hoard the precious metals and perferably gold.

It is this ingrained tendency that led both Mr. Lindsay and Mr. Probyn to recommend schemes for the introduction of the gold standard without a gold currency. Both of them were convinced that if gold were put into circulation, it would soon be drained away into the hoards and their schemes were calculated to secure the benefits of a gold standard by taking every precautionary step against introducing gold into the currency. Mr. Lindsay claimed that his scheme had the support of a distinguished economist as Recardo; in fact it was Recardo's theory applied to Indian conditions. He contemplated the opening of a gold reserve office in London and two offices in Bombay and Calcutta. The London Office was to start with a capital, raised by loan, of say ten millions, and it was to be authorised to sell to all applicants rupee drafts for sums of Rs. 15,000 and upwards in exchange for sterling money at the rate of 1*s.* $4\frac{1}{16}$ *d.*, which were to be drawn on the two offices in Bombay and Calcutta. Likewise the Indian Gold Standard Offices were to sell to all applicants sterling drafts on the London

Gold Standard Office, payable on demand, in sums of £1,000 and upwards, in exchange for rupees at the rate of 1*s.* 3¼*d.* per rupee. All rupees received by the Indian Gold Standard Offices were to be held in those Offices to meet the rupee drafts drawn by the London Gold Standard Office. All gold received by the Government were to be sent to the London Gold Standard Office.

If the gold standard reserve should decrease at any time to "apprehension point," *i.e.*, show a likelihood of becoming exhausted, it would indicate that the rupee currency was seriously redundant, or, in other words, that there were too many rupees in circulation, and it would be the duty of Government to curtail the currency. They should melt a portion of the rupees, held in the Indian Gold Standard Offices, despatching the bullion to London for sale there for sterling money, which should go to strengthen the London gold standard reserve. Should these sales of silver prove to be insufficient to preserve the gold standard reserve from extinction, it would be necessary to strengthen the fund by borrowing further on a temporary footing. This in fact was the serious drawback of the Lindsay scheme, and the Government of India declared that this involved unlimited liability to pay gold in exchange for rupees. According to the scheme the Government would be buying at a higher price than they

are worth the rupees which they should melt, and it might so happen that the gold in the London Gold Standard Office might be extinguished by the loss incurred in giving gold for the rupees in the Indian Offices. On this point, Mr. Lindsay could give no satisfactory explanation as the following from his evidence before the Fowler Committee would clearly show:—

3799. You would have acquired a fund of about 15 crores in the Indian Gold Standard Office by drawing against the 10 millions sterling?—Yes.

3800. If you melted that 15 crores and sold it in London at the equivalent 10*d.* you would realise £6,250,000?—Yes.

3801. Then drawing against that £6,250,000 at 15¾*d.* would give you about 9 crores and 60 lakhs. That melted and sold would realise 4 millions sterling?—Yes.

3802. So that the second time you turn it over the 10 millions available for the purpose of the scheme would have fallen to 4 millions?—Yes.

3803. At that rate would it not soon be practically exhausted?—Yes.

Mr. Lindsay's scheme can only succeed when the condition of the circulation has already reached the point where the redundancy, in the inactive season, is reduced to a small amount. Whether it would have succeeded in 1898 may be doubted, but it stands to reason that if the large coinage that followed was calculated to meet a genuine demand

for the rupees by the expansion of internal trade the scheme might have been given a trial. There was not much chance of the gold in London Office being exhausted by the inert rupees surfeiting the Indian Offices and embarrassing the authorities. Before the mints were closed we had a circulation of hundred and twenty crores on the authority of Mr. F. C. Harrison, and we have added to it about hundred crores since then. The fact that the brisk coinage was rendered necessary shows two things, namely, that there were not many hoarded rupees, for they would have been tempted to come out, and that instead of the silver currency being redundant it was rather just enough to meet the demand. Sir Fleetwood Wilson is of opinion that it is incontestable that a large quantity of hitherto inert silver currency has been brought into use during the last year or so, and, if it is true—and some of us may well doubt if instead of inert rupees coming into circulation, it was not rather that an exaggerated and panic-striken coinage was undertaken within the last decade—and if the process goes on to the extent that no inert mass is left in the land, Mr. Lindsay's scheme might be adopted without any necessity being felt for unlimited liability, that is to say, if unlimited liability was its only serious defect.

But that was not the only or serious defect of the scheme in the eye of the Government of India, and

some of the reasons put forth by them might be read to-day with amusement in the light of recent experiences. Sir James Westland, who was then Finance Minister, observed that the distinctive objection to the scheme lay in the fact that the conversion fund which receives and pays gold is located in England. "The públic", wrote Sir James Westland, "will regard with distrust arrangements for the establishmet of a gold standard in India which carefully involve the location of the gold reserve in London and its use there by trade. A gold reserve intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure. If the Indian gold reserve is located in London and the public believe that it may at any time vanish in supplying the requirements of trade or of the Secretary of State, confidence will hardly be established; and in any case it seems certain that a reserve of any named amount will produce a greater effect if it is located in India than if it is 6,000 miles away." Consistency is by no means the besetting sin of the Finance Department, and we find the Financial Secretary in 1910 defending warmly what the Finance Member had condemned in 1898.

That was not the only heresy which the Finance Department has given up. Sir James Westland was opposed to vesting the Government with a sensible degree of control of the volume of the rupee currency and the Lindsay scheme involved the Government coining new rupees from bullion bought with gold from the Gold Standard Office at their option. "This is not a feature of the plan," wrote Sir James, "that can commend itself in principle, for the regulation of the sole full legal tender currency of a country should be entirely automatic, and not in any degree dependent upon the discretion of the administration." This is orthodox political economy. But how far have we strayed away within the last ten years? By closing the mints to the private coinage of silver and reserving the right to coin on their own account, Government have reserved to themselves the right to meddle with the volume of currency. And they have freely exercised the right forgetting the very sensible and sane principle which Sir James Westland has enunciated. Whether they have exercised their discretion wisely or otherwise, there is no doubt that if Sir James Westland were to-day a non-official member of the Viceroy's Council, their policy would evoke from him the strongest and stoutest opposition.

In fact Sir James Westland and the Government

of that time did not contemplate that their successors would make a free and generous use of the monopolistic right which the Act of 1893 conferred upon them to coin rupees. In their despatch of 3rd March, 1896, to the Secretary of State, the Government of India stated their decision to withdraw silver as much as possible and force the sovereign into circulation. "We always have it in our power," they wrote, "to carry the operation ever further by withdrawing a still larger quantity of silver and replacing it by gold coin; and we recognise that circumstances may arise in which such a measure may be forced upon us. But our present intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increases every year; and as we permit no increase in the amount of silver coin, we may reasonably expect that the effect of increasing demand for coin will be to raise exchange to a point at which gold will flow into the country, and remain in the circulation of it." And Sir James Westland wrote in a separate minute that "instead of requiring the Government to make additions of its own motion to the currency, would it not be a more healthy state of things that the state of par should be maintained by the natural backward and forward flow of excess currency in the hands of the public?" And when the circumstances assumed in

this paragraph arise, would it not be preferable to let the gold coin go into actual circulation?" He declared that "the number of rupees in circulation must be so reduced that they shall, even at the most inactive time of trade, be insufficient with reference to an exchange of 16*d.*, and will even then require to be supplemented (mainly, if not entirely, in respect of the less active circulation which is represented by the reserve of banks and of the Government) by further coin. That coin should be gold."

Such being the opinion of the Finance Member and the Government of India in 1898, it would be pertinent to enquire why it was that there was no response on the part of the yellow metal to flow freely in to the country and back again as the vicissitudes of trade demanded. The only condition assumed necessary for the automatic ebb and flow of gold was the restriction of the rupee circulation to an extent that would ensure the fixity of exchange at 16*d.*, and that condition was satisfied at that time. Not only did exchange stand high, but the trade found considerable stringency in the money market and protested very strongly against any attempt at melting down the rupees. Mr. Moreton Frewen drew the attention of the Secretary of State the other day to the confession made by the Government of their failure to force gold into circulation. He referred to the attempt made by the Government

in 1900 who tried to get a million and a quarter sovereigns circulated, but they all came back to the Treasuries and the banks, and the people did not take them. Having regard to the well known disposition of the people to hoard gold, that a million and a quarter sovereigns could not be made to serve the purpose of money, must give ample food for reflection. It was apparently not before the Government of India had made every effort to introduce gold that they commenced the era of brisk coinage to meet the demands of trade. If the gold standard were our destiny, Mr. Lindsay and those who thought with him that a goldless gold standard was the best for the country were evidently in the right.

How, under the circumstances, Sir Vithaldas Thakersay thinks that ten rupee gold pieces will circulate passes our understanding. The attempt made ten years ago has ended in failure, and in spite of all the favourable circumstances for the ebb and flow of gold, in spite of the Government of India's resolution not to permit addition to the rupee currency, but get gold into circulation, gold did not come and rupees had to be coined. Are we better situated now to renew the experiment than we were ten years ago? No doubt there has been a heavy import of gold during the year and the import goes on merrily enough. This is accounted for by Sir Fleetwood Wilson by a change in the savings of the

people. They are saving in gold while they were saving in rupees before. He declined to speculate upon how far the sovereigns went into active circulation; but he observed a striking economy in the use of rupees and a steady increase in the circulation of notes. The increase in note circulation coupled with the absorption of inert rupees into the circulating medium, have apparently obviated the need for fresh rupee coinage, and there has been no evidence that the sovereign has become an important factor in our currency system. "We do not contemplate, the actual issue of gold coin by the Government," wrote the Government of India in 1898, "either for treasury purposes or in payment of currency notes, until the measures we have taken actually result in the establishment of the value of the rupee at 16*d.*, and the use of sovereigns to some extent, however small, as a permanent part of the circulation." Is this also another heresy that must be given up?

Mr. Probyn's scheme differed in one particular from Mr. Lindsay's and that was about the location of the gold reserve. He proposed to establish it in India, but in order to prevent the gold passing into circulation and disappearing into hoards, he proposed that the gold should not be coined, but kept in stamped bars of high value. The Government of India were not satisfied that there would be any

smaller disappearance into hoards of the gold bars, which would be easy to sub-divide, than of gold coins. They thought that the "only state of things which can be called a thoroughly satisfactory attainment of a gold standard is one in which the gold coins which represent the standard are those also which are good for payments in England." They were not averse, however, to trying the experiment should the necessity arise and should there be any considerable absorption of the sovereign. "Our present belief is," they wrote, "that even with the sovereign as the standard coin, the amount to be procured and passed into circulation, is not so large as to be beyond our means; and we hold that what we ought to aim at and what we have every prospect of successfully attaining, is the introduction of the English sovereign itself as a current coin, and that gold bars of high value, such as Mr. Probyn proposes, which are not adapted for use, in any sense, as an actual circulating medium, are not a satisfactory form of the possession of a gold standard."

This is undoubtedly true. There are of course critics who maintain that the monetary standard of a country can be different from its circulating medium, but we venture to think that nothing can be more mistaken than that. One of the most recent pronouncements on the question was made by the *Statist* which wrote in its issue of April 8,

that even if it were assumed that it is the interest of all countries without distinction to adopt the gold standard, it would not follow in the least that there ought to be introduced in every country a gold currency. "There is, in truth," it said, "no necessary connection between a gold standard and a gold currency. On the contrary, mixing the two together, shows that those who do so do not clearly understand the function either of the standard of value or of an ordinary currency." This is a most astoundingly misleading statement for Mr. Paish to make. But more is to follow: "As a matter of fact, gold sovereigns are very little in use amongst us. They never have been in use to any material extent amongst the working classes, for the sovereign is too big for working families. Moreover, they are little in use amongst the rich. The writer has made enquiries, and has satisfied himself that exceedingly few people among the rich carry more than two or three sovereigns about with them, and that even in country houses the amount of gold kept is surprisingly small—seldom amounts to more than £20 or thereabouts. The real currency of England consists of cheques. The real currency of Scotland and Ireland consists of bank-notes and of cheques. Turning from the United Kingdom to the United States every traveller is aware that gold is exceedingly little in use throughout the great Republic.

It is in use along the Pacific Slope, and particularly in California. But over the rest of the Union the real currency consists of paper. Coming to the two richest of continental countries, everybody who has stopped at continental hotels and mixed much with French and German tourists, will remember the piles of bank-notes they usually carry about with them."

All this is true; but does it establish that there is no necessary connection between a gold standard and a gold currency? Far from doing so it establishes the close and intimate connection between the two. Gold may not actually change hands in every day transactions, but cheques and bank-notes represent so much gold. Nobody would be fool enough to accept a piece of paper at so many sovereigns unless he was perfectly sure that he could get the gold at call from the issuing office. It is possible for a country to carry on its trade merely by means of paper; it may be made to serve the purpose of money even as gold or silver, that is to say, if the country were isolated from the rest of the civilised world. But social organisation remaining what it is, paper uncovered by gold is the most discredited form of currency. Mr. Paish himself recognises the fact that gold is really at the bottom of these huge transactions that apparently seem to be carried on by certain stamped bits of paper. "At the present time," he writes, "the United

States Government finds it necessary to lock up in the Treasury practically all the gold raised all over the American continent. It has issued so much paper and coined so much silver that to keep the paper and the silver at their nominal value it is forced to accumulate all the gold raised in the continent, about 25 millions sterling per annum at present. Furthermore, the Bank of France, for reasons our readers understand, finds it necessary to keep about 136 millions sterling in gold. Over and above this, Austria-Hungary holds a mass of gold. By the way, it was tried to force the gold into circulation, and has failed. Italy, likewise, is preparing for the resumption of specie payments by amassing gold, and so are Argentina and Brazil. Lastly Russia, to uphold its credit, also keeps a vast mass of gold." The following table illustrates the amount of gold augmented by the principal European countries between 1900 and 1910 :—

Country.	Stock of gold held at—		Increase.	Per cent.
	Dec. 31, 1900.	Dec. 31, 1910.		
	£	£	£	
Austro-Hungarain Bank.	36,600,000	55,000,000	18,400,000	50
Bank of England ...	28,500,000	31,350,000	2,850,000	10
Bank of France ...	93,600,000	131,200,000	37,600,000	40
National Bank of Italy.	12,000,000	38,000,000	26,206,000	217
Japan ...	6,800,000	24,200,000	17,400,000	251
Imperial Bank of Russia.	75,500,000	130,500,000	55,000,000	72
United States Treasury.	102,000,000	233,400,000	131,400,000	129

Now for what purpose is this huge augmentation of the gold reserve in the principal countries of the world? It is undoubtedly for the purpose of ensuring to the holders of bank-notes their convertibility into the standard metal. Let the people know that they are not convertible, they will immediately fall in value and ultimately cease to have any value. In fact, the bank-notes and cheques are only representative money: they are so easy to use both in small and large transactions. The fact is so simple that everyone who has the least comprehension, must be able to recognise the closest intimacy between the currency and the monetary standard of a country, and not be taken in by what appears on the surface. Walter Bagehot has devoted a whole book, *Lombard Street*, to show how the entire credit system of the United Kingdom rests upon the gold reserve in the Bank of England and has raised the warning in a most popular form against misconceptions of the kind of which Mr. Paish is presumably guilty. So, too, is the case with every gold-using country. Gold as such may not circulate, but the circulation of paper, which represents gold, is the same thing as the circulation of gold, though there may be some slight difference in its economic result. The opinion may be fortified by that of more authoritative gentlemen and the opinion of a few is given below. The first is from

Lord Rothschild who deposed before the Fowler Committee :—

7621. You think a gold standard without a gold currency impossible ?—I do...

7625. (*Lord Balfour of Burleigh*). I wish you would explain to my uninitiated mind on what ground you say a gold standard cannot be introduced without also a gold currency into India ?—I have tried to find out what is meant by a gold standard, and I have not been able to solve it myself.

7626. What I understand is meant by a gold standard is this, that people who have large transactions, chiefly export trade with gold-using countries, should be able to exchange gold for rupees and rupees for gold at a previously announced rate. Now the question I want to put is, why, your opinion, is that condition of affairs necessarily linked with what you describe as a gold currency ? —My experience is that you will never be able to secure what you call a gold standard unless the Government has got the gold coins to give to those who want to export, and not bills.

This is from Sir Robert Giffen :—

10091. I do not know whether I should say very much upon this point of a metallic currency being the same as the standard, but it really is a very important matter.

10092. It seems to me a very important point, and we should like your views upon it ?—I should like to say that this enters into the whole discussions about money in the earlier part of this century in this country. A

strong opinion existed against paper issues of small denominations, on the express ground that they would drive money of the standard out of the country, and that you ought to have money of the standard circulating in the hands of the people. I do not think I can give you any reference to any published book on the subject, but that was really the essence of the views of the leading men of those days, about which I can speak to some extent from my acquaintance with Mr. Bagehot and older people acquainted with the currency controversies of that time.........

10104. I understand that your argument is that it is undesirable to have a gold standard easily, because gold would not be the same metal as the preponderating currency of the country? That is the very thing I am discussing, the case of a proper gold standard with convertibility, and allowing a gold currency to be used, and I regret that those who have been putting forward the idea of having a gold currency have not supplied information as to the amount to which it could rise.

Sir John Lubbock said :—

11033. Do you draw a distinction between a gold standard and a gold currency?—I quite agree with Lord Rothschild that you cannot have a gold standard without a gold currency; and I should like to go further and say that what I have always understood to be a gold currency is a currency of which the main amount is in gold.

11042. You say we cannot have an effective gold standard without a gold currency?—As long as the main currency is in rupees, and taxes calculated in rupees, and

transactions effected in rupees, and rupees are legal tender to any amount, it appears to me that rupee is really the standard.

These opinions may be multiplied, but that is hardly necessary. The advocates of a gold currency impliedly admit that it is absurd to have a standard which is not also the currency; otherwise they would have been content with the present Exchange Standard. The question then that we must ask ourselves is whether it is possible for us to maintain a gold currency and keep gold in circulation among the people and whether there are any circumstances which would justify an optimistic mood. The critics of the Government have been maintaining that it was the Secretary of State's action in selling Council Bills over and above his requirements that has prevented the inflow of gold into India and condemn strongly his manipulating the import of gold in the interests of the London money market. If the Secretary of State for India had sold Council Bills to meet his own demand, the excess exports would be paid for by gold and we shall have accumulated a large reserve of the favoured metal. In 1906-07, for example, the Secretary of State sold Bills for over 33 millions while his demands were only about 18 millions, and they urge that 15 millions of gold have been artificially prevented by the Secretary of State from entering into India. That gold must

necessarily come in if the Secretary of State suspended his drawings seems to admit of doubt as may be evidenced from the following statement made by Mr. J. E. O'Conor before the Fowler Committee :—

1070. Will you explain how it is that a suspension of the Secretary of State's drawings would affect the export trade ?—I do not know how the thing comes about, but we know that it has happened on every occasion when the Secretary of State's drawings have been suspended that the export trade has been suspended; export business has ceased for the time being.

1075. The Secretary of State's drawing is merely the putting forward of a demand which India has to pay ?—Yes.

1706. It is drawing money which India has to pay ?—Yes.

1077. And she has to pay that by exports...Really the cessation of exports when the Secretary of State ceases to draw Bills is due to the fact that India is not called upon to pay her debts for the time being. That is the fundamental cause ?—That, no doubt, is the basis of the thing.

It would seem then that the Secretary of State's drawings are not so much a means of remitting money as an instrument for stimulating trade. Let us suppose that this is a far-fetched statement and that the Secretary of State's drawings are only a means of paying debt. What would happen if they

are suspended? Gold of course will necessarily be imported by the trade and that importation will take the form either of sovereigns or bullion. In the case of the latter it must be taken to the Banks and cashed for rupees as bullion is not a form of currency and cannot serve the purpose of money. If sovereigns, they need not necessarily be brought to the Banks, and the trade can put them into circulation if the people would have them. And if the trade is satisfied that gold would circulate, the importation will be mainly sovereigns, as sovereigns are legal tender, and the quantity of bullion will be confined to the extent that will be necessary for use in arts and for ornaments. If the Secretary of State sold bills for only 18 millions in 1906-07 instead of for 33 millions, we should have imported additional treasure to the value of 15 millions, the net amount of gold imported that year being only 10 millions. What will the trade have done with the 15 millions? Or what did the trade do with the 10 millions? They were quietly absorbed and no part of it has gone into circulation. And the Government would only have been compelled to coin rupees and give them in exchange for what the trade had imported. That is exactly what happens when the Secretary of State sells Bills in excess of his demands. There is only this difference, that while in this case gold is received in England,

in the other case it would have been brought to India, to be re-shipped again to England to purchase silver for coinage.

The Secretary of State's drawings, therefore, cannot be said to impede the introduction of a gold currency. They do not prevent the importation of gold into India, for that would have anyhow to be exported in order to purchase silver for the purpose of coinage, unless of course the people are willing to circulate gold. Criticism of his policy seems to be senseless as it ignores the fundamental principles of Indian financial transactions. Instead of criticising the Secretary of State for India, who is only facilitating the trade by his drawings, it would have been more germane to the subject if they criticised the people who would have silver and only silver to circulate, and the circumstances that render the circulation of a more precious metal a physical impossibility. The circulation of gold depends entirely upon the capacity of the people to circulate that metal. And it is a pity that on such a question the advocates of a gold currency and a gold standard are singularly silent. Except a vague ambition that we too should commit the follies of certain Western countries there is no definite attempt made to probe to the very bottom of the question. The American Government published some papers a few years ago on the question of the circulation of gold in

gold-using countries, which among others contained a statement by Mr. Roosevelt on gold circulation in England. It would seem that the circulation at that time was 60 millions, besides 30 millions in sovereigns and 30 millions in bullion in the Bank of England. The silver circulation was 22 millions or about a third of the circulation of gold. The proportion of the standard to the token currency in active circulation was 3 to 1, and no doubt the same rate is kept now. What can be the circulation of gold in India? "If we make the comparison with England," said Sir Robert Giffen, "and comparing the economic circumstances of India, taking out for the purpose of comparison, the figures of income-tax when there was income-tax, or the figures of assessed taxes now, if we compare that with the receipts from income-tax in England, and other direct taxes, you would find this: if we can carry on with 60 millions of gold currency in the hands of the people, I doubt very much whether that would give you much more than 3 millions for the people of India." Out of a total circulation of about 250 crores all that gold can displace is only about 3 millions! That is one estimate; but Sir David Barbour was of opinion that more than 15 millions in the active circulation would be unnecessary and might be a source of positive inconvenience. The yearly addition he estimated at 200,000£. That would allow wastage

of only $1\frac{1}{3}$ per cent per year. Sir Edward Baker estimated the wastage of silver at 2 per cent and it is notorious gold wears away sooner than silver. Anyhow the active circulation has never been put at more than 15 millions and that can displace rupees only to the tune of $22\frac{1}{2}$ crores. The circulation of the standard metal to the token coin will be 1 to 10, while in England it is 3 to 1. We wonder if that can give satisfaction and keep the standard agoing.

For one thing the experiment is entirely one which has not been verified in the case of any other country. It is not merely an economic truism that the monetary standard of a country must consist of that metal which the people use in their daily transactions, but it is one that has been verified in the actual experience of every country. Different countries have different systems, and except the United Kingdom no country has a pure gold standard; nor is any country satisfied with the monetary conditions that obtain within it. The United States are not satisfied with their currency arrangements, and there is no doubt that although the silver party is discredited and defeated for the present, the thinking section is dissatisfied with the existing gold standard—which is only gold standard by official decree. Nor is France more satisfied. "It has been sometimes thought," said M. Say, the French

Minister of Finance, who was president of the Conference of 1878, "that we are tending towards a gold standard; we are not doing anything of the kind; if we are tending to anything different from what we have now, it is to the *double etalon,* and we expect that that will be reached so soon as the incubus of the German silver is removed from us". We in India are supposed to follow the example of France, but in France the proportion of gold to silver is infinitely higher than it ever can be in India. We are in fact having what we would call a bastard bimetallism. It is bimetallism because gold and silver are both legal tender; and both of them might be got in any quantity provided the want is real. Although the mints are closed to the private coinage of silver, the Secretary of State's drawings enable the country to obtain as many rupees as are required for the purposes of trade. And although the Government do not undertake to give sovereigns for every fifteen rupees that may be deposited with them, sovereigns will be imported by the trade if they were sure we would circulate them. If there is effective demand there is nothing to prevent the inflow of sovereigns in place of the bullion now imported and consumed. But the bimetallism is bastard all the same, because it is so artificial and so apt to break down. An European war or an internal famine will drain away

all the precious gold reserve that we maintain with so much travail.

But say the advocates of a gold currency that the scheme of Sir Vithaldas Damodhar Thakersay does not propose the immediate conversion of rupees into sovereigns or whatever the name given to the gold coined in Indian mints, and that it simply provides for the coinage of as much bullion as may be brought to the mints. There are some simpletons who believe that gold will not be drained away as the Government do not guarantee absolute convertibility inasmuch as they only coin the gold that may be brought to them, and not give gold for every fifteen rupees tendered. That is no doubt true, but with mints open to the standard metal, but not exchangeable for rupees, the standard metal must appreciate. The fact that the mints are closed to both gold and silver is different; but if the Government says, "We will issue these coins only to those who give gold but not to those who will give its equivalent in rupees," the result cannot but be depressing to the rupees, and the standard metal will be forced out of circulation, as it is cheaper to circulate the depreciated metal. To what an extent this may happen cannot be guessed, but we entertain a strong fear that it might happen to an extent that may ruin all prospects of a gold currency. You cannot appreciate gold and yet keep

it current. The essence of a gold currency is its convertibility.

But will there be genuine demand for a new gold coin? Will people circulate gold because it is minted in Calcutta and not in London? What prevents now the sovereign from circulating, and where is the guarantee that people will bring in gold for coinage in Indian mints while they can get readily any number of sovereigns from the market? Is there any virtue in *swadeshi* coinage? That the trade will bring gold and take it to the Indian mints for coinage while they can import the manufactured article direct from home is one of those myths which may readily be dispensed with. As for the people bringing in bullion to keep their savings in coin, this is what Sir David Barbour wrote in 1892: "It is held by some that if a gold standard were established in India, a great deal of the gold that is now hoarded or held in the form of ornament would be brought to the mints, coined and put into circulation. I have never been able to accept this theory. Why should a native of India give up his habit of hoarding, or an Indian lady cease to take a pleasure in the wearing or possession of gold ornaments, merely because the Government of India had established a gold standard?" Sir V. D. Thakersay and others think that hoarding has ceased in India, and that we have turned over a new economic leaf. If this is true, the

imported gold is mainly in the form of ornaments and jewels, and it all the more becomes difficult to lure it to the mints. All that can be done is to get the gold in the hands of bullion dealers, but it is a question whether they will care to pay the mint's seignorage if they are sure of a market for bullion. Anyhow the amount must be small, nor is there any certainty that it will serve the purpose of money till absorbed and brought to the crucible.

The fact is, Sir V. D. Thakersay's proposal is only the thin end of the wedge. He is too clever a businessman to forget that it matters very little for an Indian in Tuticorin or Attock whether the sovereign is coined in Calcutta or London. So long as sovereigns are obtainable, an effective demand would have brought them for circulation, and the absence of their circulation is only a proof that the demand is not effective. To our knowledge and recollection nobody having bullion and wanting sovereigns has ever complained against the closure of the mints to its coinage. It is as easy for them now to get it coined in London as it will be to get it coined in Calcutta or Bombay. The object of the advocates of the opening of the mint to gold is somehow to put gold into circulation, and they seem to think that this would be as successful an attempt as any other. But the difficulty will come not when the mints are open to gold, but when gold is given for the rupees,

and the attempt is made by Government to ensure absolute convertibility. It is then that they will require an amount of gold which they will find absolutely difficult to obtain. Whether all the rupees will be produced at the same time for conversion into sovereigns or no, the gold standard and the gold currency must break down if the Government are not prepared to make the conversion when demanded, and they must have behind them a stock of gold which in the opinion of those best conversant with such topics comes to a pretty good sum. The estimate comes to anything between a hundred and two hundred millions, and that cannot be obtained by coining odd bullion that may be brought to the mints. The Government have no other option than declare the sovereign as sole legal tender, the rupee legal tender up to about, say, thirty rupees, thus converting the rupee currency—250 crores!—into subsidiary coin as the shilling in the United Kingdom, melt the excess silver and sell it for gold and for the rest borrow gold in the market. These are the necessary steps for a real gold standard and not for its make-believe. They are so frightful steps that no "gold bug" will dare propose them—let alone the consequences on internal and external trade—and unless they are taken, we can only have the present system which is neither fish, nor flesh, nor good red-herring,—a bastard bimetallism fraught with unspeakable evil to the country.

CHAPTER III.

THE COST OF A GOLD CURRENCY.

THE ranks of the advocates of a gold standard based upon a gold currency are by no means thin and the adherents of the silver standard are just now a comparatively discredited lot. But there is a singular lack of enlightenment as to the weary steps that will have to be taken for reaching the goal of a perfect monetary system based upon an automatic gold currency. It it unfortunate that this should be so. If the establishment of a gold standard is as easy as eating pine-apples, of course one need not trouble over it. But the scheme is beset with so many difficulties that it will not do for us to take a plunge in utter disregard of the consequences. Senator Dumas said years ago: "Those who approach these questions for the first time decide them at once. Those who study them with care hesitate. Those who are obliged practically to decide doubt and stop, overwhelmed with the weight of the enormous responsibility." This was said in 1878. Much water has flowed down the Ganges since then, but the same flippancy and thoughtlessness seem now to characterise the responsible authorities as characterise those who approach the question for the

first time. In the matter of the establishment of a gold standard in India we fail to discover any serious appreciation of the cost involved either on the part of the responsible authorities or on the part of those who have goaded them to action.

Now, to take a proper measure of the cost of a gold currency, two things have to be considered: first the cost of securing the gold and keeping it in circulation, and second, the effect it will have on Indian commerce and finance. Before we consider these, we may state in paranthesis that we can get no valuable information for our guidance from any of those countries which since the demonetisation of silver by Germany and subsequently by the states forming the Latin Union, have taken to a gold standard. The case neither of Japan, nor of Austria nor of Russia seems to be of any avail, for nowhere is the gold standard safe and certain. Japan with its heavy war-debt is by no means feeling comfortable. The same cause is telling heavily even in Austria-Hungary and its statesmen are afraid lest any fall in the excess of their exportations over their importations should lead to an efflux of gold, and it is officially stated that "the gradual accumulation of a large stock of gold within the boundaries of the Monarchy, the granting of comparatively high rates of interest on Austro-Hungarian stocks, etc., far-reaching support of the export trade, and, finally,

the slow but steady increase of wealth among the inhabitants themselves, whereby the re-purchase of those stocks, bonds, &c., held abroad would be rendered possible, are regarded by financial authorities in this country as the surest, and virtually the only, means whereby the unpropitious state of affairs likely to be produced by an efflux of gold could be prevented." As for Russia this was what Lord Rothschild said: "Russia has taken nearly ten years to establish a gold currency; she was probably helped by the produce of her own mines but the efforts and the sacrifices have been heavy, and, curiously enough, now that the gold currency is established, the great difficulty for the Russian Government is to get the gold into circulation."

But the example of these countries is not altogether without a clue. Austria-Hungary for example borrowed thirty millions sterling and Russia began by accumulating every possible amount of gold that she could get hold of. Although both these countries had State banks, still in times of difficulty the State issued notes of their own, which passed as legal lender. They were of course inconvertible. When they determined on a gold standard no more notes were issued and the influx of silver stopped; the silver in the possession of their Treasuries being used for fractional currency. The first thing then that the Indian Government

should do is, as pointed out by Lord Rothschild to absolutely prohibit the importation of silver into India from private sources which will always leave the Government of India the right to buy silver if they want it, or put such a heavy duty on the importation as to make it prohibitive. The accumulation of gold by Russia was done in this wise: firstly, by keeping to itself the produce in the Russian gold mines; secondly, by receiving the coupons of her external debt as customs duties, as well as receiving those duties in gold or in the bank notes of England or France, which is exactly the same as gold; thirdly, by large borrowings outside of Russia, and redemption of internal loans; and fourthly, by exchange operations, when considered necessary by the minister. That is to say, whenever there was a superabundant harvest and a plethora of bills offering for sale, the Russian Government depressed the exchange, which was a premium on exports, by becoming large buyers of bills, and, whilst they were borrowing abroad for their general purposes, ordered gold to be sent to them from the proceeds of these bills. In India the accumulation of a large gold reserve can only be done by heavy gold borrowings. And lastly, the Government should keep a keen eye on stimulating exports. As Lord Rothschild said: "On the advisability of a gold standard and a gold currency for India—and I cannot separate them,

though for a time the gold may not be put into circulation—I must emphatically remark here that a change of that kind, desirable as it may be in the interest of India, will be of no avail and will effect no permanent good unless steps are taken to increase the exports of India, because it is on the magnitude of the export trade that the future of a gold standard and gold currency depends."

With regard to the first suggestion, namely, the absolute prohibition of the importation of silver, a few facts have to be considered. India, as may be well-known, is the sink of silver. It has been computed that the world's stock of silver is 12,000,000,000 ounces or 1,200,000,000 *l.* worth in gold. During the last seventy years India has absorbed 2,250,000,000 ounces of silver, or more than one-third of the whole world's supply during that period. In the last decade she absorbed 720,000,000 ounces out of the 1,820,000,000 ounces produced in the whole world. In a paper which Sir James Wilson recently read at a meeting of the East India Association, London, he estimates the Indian stock of silver at 250,000,000 *l.* worth in gold at its present price. What is remarkable is that during the years that followed the closing of the mints to the coinage of silver the absorption of silver steadily increased and during the last three years when there has been a heavy absorption of gold, the absorption of silver

has been equally heavy. The following tables illustrate the point :—

ABSORPTION OF SILVER BY INDIA.

Period of Ten Years.	Average Annual Net Import.	
	Millions of Ounces.	Millions of Pounds Worth at Rate of Exchange of the Time.
1841-1850	6	1·5
1851-1860	25	6·3
1861-1870	39	9·7
1871-1880	20	4·6
1881-1890	28	6·0
1891-1900	35	5·4
1901-1910	72	8·8
Total for seventy years ...	2,250	423

ABSORPTION OF SILVER BY INDIA—*Continued.*

Years ending March 31.	Millions of Ounces.		
	Net Private Import.	Net Import by Government.	Total Net Import.
1901	10	40	50
1902	34	5	39
1903	44	0	44
1904	43	36	79
1905	38	36	74
1906	29	56	85
1907	35	83	118
1908	53	45	98
1909	74	—	74
1910	62	—	62
1911	56	—	56

ABSORPTION OF GOLD BY INDIA (ANNUAL AVERAGE IN MILLIONS OF Pounds WORTH).

Periods of Ten Years.	Net Import.	Production.	Absorption.
1841-1850	0·6	—	0·6
1851-1860	2·1	—	2·1
1861-1870	6·0	—	6·0
1871-1880	1·4	—	1·4
1881-1890	2·9	—	2·9
1891-1900	1·8	1·0	2·8
1900-1910	6·0	2·2	8·2
Total for seventy years.	208	32	240

ABSORPTION OF GOLD BY INDIA—*Continued.*

Year ending March 31.	Net Private Imports.	Government Exports.	Production.	Absorption.
1891 ...	4·2	—	0·4	4·6
1892 ...	1·6	—	0·5	2·1
1893 ...	—1·8	—	0·6	—1·2
1894 ...	0·4	—	0·8	1·2
1895 ...	—2·7	—	0·8	—1·9
1896 ...	1·4	—	1·1	2·5
1897 ...	1·4	—	1·4	2·8
1898 ...	3·2	—	1·5	4·7
1899 ...	4·3	—	1·6	5·9
1900 ...	6·3	—	1·8	8·1

ABSORPTION OF GOLD BY INDIA—*Concluded.*

Year ending March 31.	Net Private Imports.	Government Exports.	Production.	Absorption.
1901 ...	5·0	4·5	1·9	2·4
1902 ...	3·3	2·0	1·9	3·2
1903 ...	6·4	0·5	2·0	7·9
1904 ...	10·9	4·3	2·3	8·9
1905 ...	12·0	5·6	2·4	8·8
1906 ...	6·3	6·0	2·4	2·7
1907 ...	9·8	—	2·2	12·0
1908 ...	11·5	—	2·1	13·6
1909 ...	3·1	0·2	2·2	5·1
1910 ...	14·5	—	2·2	16·7
Average of ten years:				
1891-1900 ...	1·8	—	1·1	2·9
1901-1910 ...	8·3	2·3	2·2	8·2
1911 ...	16·0	—	2·5	18·5

It will be observed from the above tables that while the importation of gold during the last three years on private account was a little over 29 millions sterling, the importation of silver was 189 million ounces and far in excess of its importation during any previous period. The heavy importation of gold has naturally attracted considerable attention in financial quarters, but not so the importation of silver. Whatever may be the reason for the absorption of the precious metals, there is no denying the fact that silver is becoming a commodity which the

people are anxious to secure and we do not know if the absolute prohibition of a commodity, even though it may be a precious metal, can be justified on any ground. Lord Rothschild did not know that silver was a commodity: he was under the impression that it was a form of currency and in that belief he was entirely in the wrong. The heavy absorption of silver since the closing of the mints can only be accounted for by the fact that it is consumed in the arts or for ornaments. A heavy import duty can raise the price of silver within the country and must perforce depress its price outside. But it ought not to be forgotten that if silver is entirely kept out of the country, its place will naturally be taken by gold and there will be a even yet larger absorption of the yellow metal.

The total prohibition of the importation of silver must be followed by the adoption of means to secure a considerable reserve of gold. Lord Rothschild proposed borrowing 20 millions sterling. As we have already seen there is considerable divergence of opinion as to the reserve the Government would have to provide for enforcing the gold standard on a gold currency. Lord Rothschild himself wants absolute convertibility of the rupee—nay more. He added that we must be in a position at times to send gold back to London. 'They cannot introduce a great change in the currency,' he added, 'and say,

"We do not care about the money market, that must take care of itself." They must be prepared to act with a bold hand and to send gold out.' That being Lord Rothschild's idea of a gold currency, he would no doubt revise his estimate of the gold required for the purpose after the recent experience we had within the short space of four years. With a 24½ million reserve exchange fell twice and the Government felt awfully nervous to send gold out. To ensure the convertibility of 250 crores of rupee currency and be prepared to send out gold to London whenever the money market may need it, we should have a much larger reserve than 20 millions. Lord Rothschild looked to the automatic flow of gold into India. That there is a large influx of gold into India one cannot deny, but it is clear that in spite of the absorption of 240,000,000 *l.* during the last seventy years, of 35,000,000*l.* during the last two years, all that the Government Treasuries could absorb and retain is only about 6,000,000 *l.* How poor and infinitesimal this is compared with the reserves in the Banks of other countries will be clear from a reference to the table on page 71.

In order then that the Government might keep a decent stock of gold, it must do one of three things: it must withdraw a part of the silver currency, melt it and sell it for gold or raise a gold loan or collect the customs duties in gold. How many rupees

shall we withdraw from circulation, melt down and exchange for gold? Is the silver currency redundant and if so to what extent? If it is not redundant is it possible to melt down rupees without creating stringency in the money market? The experiment was tried once and with what result? The proposal that was made by Lord Elgin's Government to melt down 10 crores was received with considerable opposition by the trade who protested against the artificial contraction of the currency and the consequent stringency of the money market. If the recent additions to the currency have been due to a genuine demand for the rupee currency—and that has been the explanation given by Sir Edward Baker—it is not possible to withdraw any considerable portion of the rupee currency without seriously dislocating trade, causing a depression in price, and creating an artificial famine of the legal tender money. At least 25 crores must be melted down to acquire 25 millions gold, that is to say, if 25 millions were enough. That is curtailing the rupee currency by about 10 per cent.

The second and perhaps the safest course would be to raise the required amount by loans. We have already to our credit about 19 millions sterling being the Gold Standard Reserve, a considerable portion of which is invested in gilt-edged securities. This along with the gold in the Paper Currency Reserve

would make up about 25 millions. If we would borrow 25, 50 or 75 millions as the case may be, —the loan spread over a number of years—we shall have secured a gold reserve to back up the gold standard. Of course the interest on a reserve of about 100 millions will be 4 millions, but that we suppose is the penalty we should be prepared to pay. Provided we can raise the loan, say in a period of ten years, that is undoubtedly the best way of doing the business. Only the question is whether such an amount can be raised. But our portion of the absorption of the world's gold has by no means been small. During the last decade the world's production of gold has been estimated at 780,000,000 *l.* of which India has absorbed 82,000,000 *l.* And since the annual production is 90 millions sterling, if the Indian Government is prepared to pay the price, it can have the amount it wants. An additional taxation of six crores is the minimum that we must be prepared to pay, if the silver currency is to give room to a gold currency. If the Indian tax-payer can stand it, of course that can be done.

With regard to collecting the customs duties in gold, as Sir Robert Giffen pointed out, the Indian tariff scale is the lowest in the world and there is not much revenue to collect by import duties. The customs revenue for 1909-10 stood at 4, 965, 188 *l.* and it cannot be increased unless the import duties

are increased. The fiscal policy of India is free trade, pure and simple, and the duties are merely revenue duties. It will not be possible to raise more revenue unless we adopted protection ; but that is not a contingency likely to happen. Not only is Great Britain pledged to enforce free trade, but under the peculiar financial conditions of India we are bound to do nothing which will in any way restrict the export trade. We are bound to keep our exports at least by 20 millions in excess of the imports so that we may not be able to proclaim bankruptcy. If this abnormal excess of exports over the imports is necessarily to be maintained, the last thing that we can do is to raise any heavy tariff wall which will lead to retaliation as sure as the sun and the seasons. We do not seem to have a plethora of exportable commodities in which we have a monopoly. The foreigner, if he cared to, might deny himself the privilege of importing our goods, and it so happens that in spite of all the talk about imperial patriotism that resounds the ear, the Empire takes less of our goods than the foreigner. And so long as we are in the mercy of the foreigner and so long as it is in our interests to stimulate the export trade, so long it will not do for us to be surrounded by high tariff walls and the question of adding to the stock of gold by customs duties will remain unsolved.

It is therefore safe to conclude that the difficulties of the Government in securing a decent stock of gold wherewith to start the gold currency are by no means small. There are of course those who believe that there will be no need for the Government to accumulate a large stock of gold at all. Lord Northbrook clung to this opinion. "I have seen it stated," he said, "that to establish a gold standard and a gold currency in India would require an enormous accumulation of gold by the Government of India. I do not see that myself. I think that the supply of gold would be obtained gradually, and without any such great cost to the Government of India as has been suggested." His Lordship was of opinion that India stocked 300,000,000*l*. and that the opening of the mints to the coinage of gold would be an invite to these lurking pieces to come out from their hiding places. Colonel Smith, a Mint Master at Madras, computed that between 30 and 40 millions would be tendered for coinage; and though Lord Northbrook did not give his estimate, he contented himself with remarking that "the opening of the mints to the coinage of gold would cost the Government nothing except the cost of the coinage". "I do not think," he added, "that there is any necessity for any large expenditure by the Government of India in order to provide gold. Some expenditure may be necessary, but it would be principally for the sake of facilitating

the exchange of silver for gold and easing the rate of discount"! It is only fair to add that his Lordship's knowledge of India was at least a quarter of a century behindhand. He will be a bold man indeed who would endorse his statement now, seeing the extraordinary shyness which gold shows to come out and the persistence with which it conceals itself nobody knows where.

Let us suppose then that the Government of India are prepared to run this risk—that they are prepared to contract the rupee currency and sell out silver, to raise gold loans and supplement it by customs duties collected in gold—the problem will then be how to force this gold into circulation. For, unless the gold is got into circulation, all the efforts to maintain a stock of gold will only have proved the baseless fabric of a vision. "Experience has shown," said Mr. Wilson in his paper to which we have already referred, "that India can absorb an enormous quantity of gold without using much of it as currency. . . If this rate of absorption into hoards and for ornaments went on, and Government were bound to give gold on demand for rupees, what certainty is there that a very large amount of gold would not disappear from circulation, and Government be left with a large quantity of useless rupees in its hands, after having had thrown upon it all the expense of importing large quantities of

gold, which is at present borne by private importers?" The query is undoubtedly natural and under the circumstances inevitable. If the gold reserve will melt away like the mist before the morning sun, we shall only have the satisfaction of having made the attempt and failed rather than not have attempted at all. If an European country absorbed 300,000,000 *l.* it would certainly start on a career of gold currency with infinite hope of success. But we have 400,000,000 *l.* nearly and for no purpose so far as the monetary standard is concerned! For such a purpose it might as well be in the bottom of the sea.

One suggestion has been made by Lord Northbrook among others for establishing a gold currency and that is to make the currency notes redeemable in gold. There has been a gratifying increase of late in the use of currency notes and the following figures given by Sir Fleetwood Wilson in his financial statement for this year are extremely interesting:—

Net circulation in crores.	1906-07.	1907-08.	1908-09.	1909-10.	1910-11. (ten months).
Average.	35·92	36·47	34·84	38·88	40·35
Maximum.	38·89	38·14	36·85	42·66	41·96
Minimum.	33·08	34·91	32·88	36·07	38·52

The growth in the circulation has been so steady that the Finance Member considered it prudent to

increase the fiduciary share in it, or in other words, to enlarge that portion of the currency reserve which is held invested and not in actual coin, and it has been increased from 12 to 14 crores. It is obvious that notes of smaller dimensions cannot be redeemed in gold and it is safe to say that only about 10 millions sterling could be held in reserve for the notes. The five rupee and ten rupee notes could not be redeemed by gold and the Paper Currency Reserve must perforce keep silver to redeem them. There is of course the chance of the gold being drained away by the notes being presented for encashment and never coming back at all. That is a risk that has to be faced.

But no measure for keeping gold in circulation can succeed unless it is accompanied by an Act making the sovereign sole legal tender and reducing the rupee currency to the status of the shilling in England. If the rupee continues legal tender, its supply cannot be regulated by the State without every now and then altering the value of all contracts. Lord Farrar stated before the Currency Committee that "the Government of India cannot, under any scheme, avoid the responsibility of keeping in India, and, if necessary, of coining, as many silver rupees as are likely at any given moment to be in demand". This obligation was refused by the Government till 1900 on the ground that the

limitation of the currency was the surest way of raising exchange and, if possible, of forcing gold into circulation. The latter purpose having failed, it was thought the currency could not be watered down if the mint was at work only to supply the demands of trade. The process was simple. The trade brought sovereigns and tendered them to the Government and the Government was bound by law to give notes which were redeemable only by silver. The gold that was tendered was kept in the Paper Currency Reserve and the Government was compelled by every one who tendered gold to practically increase the silver currency. If the addition to the rupee currency can be prevented, it can be done only by declining to give notes redeemable by silver, but redeemable only by gold. Not only the existing notes of over fifteen rupees in value, but new notes that may be issued must be issued only on a gold basis.

But the question will then be whether the trade will be satisfied by the issue of gold-notes and the total prohibition of the grant of silver. It will be putting a premium upon one form of legal tender, if the rupee is to be made scarce and not available at all. The trade, however, may require only rupees and nothing but the rupee. No doubt the volume of internal and external trade presents an imposing

figure; but it is made up entirely of a number of transactions of the fractional value of a sovereign. It was Lord Aldenham who estimated that the foreign trade of India consisted only of five per cent of the whole trade, internal and external. Those who know anything of the conditions of Indian trade know that the foreign trader is even more necessarily in need of silver than the Indian trader, because his transactions are small and carried into the most interior parts of the country. The smallest coin in England is a farthing which is three times the value of the pie in India. And while for all the daily transactions England is content with a subsidiary coin of about 25 millions sterling, we require a rupee circulation of 250 crores. For every transaction of Rs. 15 in value there must at least be a hundred of less than fifteen rupees. If so the duty of the Government not to create an artificial scarcity of the rupee by entirely stopping its coinage is obvious.

On the other hand, to issue silver-notes against gold is the surest form of swelling the volume of the currency without in any way providing for its contraction when the trade is slack and the effect is seen immediately on the prices. The quantitative theory does not, we know, find much favour with any but economic writers, but it has found ample illustration in the case of India itself during the last decade.

The last decade has been remarkable for an unparalleled coinage of silver and an equally unparalleled rise in prices and an examination of the figures shows that the percentage in either case is very nearly the same. In an article which Professor Keynes contributed to the *Economic Journal* (March, 1909) he worked out the figures which stand thus :—

	General index number of prices.		Estimated total volume of currency on 1st April of each year.
1903	100		100
1904	102		110
1905	112		115
1906	131		127
1907	140	1st April	136
		31st Dec.	143

As he himself pointed out too much reliance must not be placed upon their remarkable agreement. The index number of prices is not well constructed, the volume of currency can only be estimated, and the agreement may be due to the fortuitous balancing against one another of causes unconnected with the present discussion, some of which must certainly have been in operation. All the same the agreement is striking and there is enough evidence to prove the validity and operation of the quantitative theory.

The following table gives the index number of prices which will be useful for comparison :—

Year.	Index Numbers of the Commercial Intelligence Department.				Atkinson-silver prices.	Sauerbeck-gold prices.
	Food-grain (retail prices).	Imported articles.	Articles exported and consumed.	All articles.		
1873	100	100	100	100	100	100
1874	100	99	102	101	108	92
1875	91	90	95	94	97	86
1876	97	91	90	90	100	86
1877	144	88	110	104	129	85
1878	174	84	114	106	139	78
1879	160	83	112	104	127	75
1880	118	88	110	104	109	79
1881	96	86	99	96	99	77
1882	95	85	95	92	98	76
1883	95	79	93	89	99	74
1884	99	78	96	91	107	68
1885	100	75	91	87	106	65
1886	105	80	93	89	103	62
1887	117	83	94	91	104	61
1888	123	92	98	96	111	63
1889	119	91	104	101	118	65
1890	121	91	104	100	118	65
1891	137	84	103	98	120	65
1892	148	84	109	102	132	61
1893	129	89	112	105	120	61
1894	114	84	110	102	123	57
1895	120	87	111	104	120	56
1896	155	94	117	110	131	55
1897	209	86	124	113	154	56
1898	139	80	102	96	126	58
1899	137	87	100	96	121	61
1900	192	97	124	116	143	68
1901	157	96	116	110	139	63
1902	141	86	113	105	128	62

Year.	Index numbers of the Commercial Intelligence Department.				Atkinson-silver prices.	Sauerbeck-gold prices.
	Food-grain (retail prices).	Imported articles.	Articles exported and consumed.	All articles.		
1903	126	88	103	99	123	62
1904	117	93	104	101	121	63
1905	147	96	116	111	134	65
1906	179	105	139	129	158	69
1907	180	116	145	137	167	72
1908	231	107	151	139	180	66
1909	195	99	134	124	...	67
1910	...	...	...	...	...	70

The following table gives the amount of the coinage of silver :—

Year ending March 31.	Value of Silver received into the Mint.	Value of New Silver Coined.	Old Government of India Coins Recoined.	Net Addition to Silver Currency.
Average of ten years:				
1871-1880 ...	58	57	1	56
1881-1890 ...	64	64	4	60
1891	129	132	1	131
1892	65	56	2	54
1893	123	127	2	125
1894	44	48	2	46
1895	1	1	1	—
1896	3	3	3	—
1897	7	6	6	—
1898	13	10	6	4
1899	6	7	3	4
1900	21	22	9	13

Year ending March 31.	Value of Silver received into the Mint.	Value of New Silver Coined.	Old Government of India Coins Recoined.	Net Addition to Silver Currency.
1901	152	173	3	170
1902	33	51	13	38
1903	111	114	81	33
1904	133	165	54	112
1905	98	114	36	78
1906	137	200	31	169
1907	212	261	27	234
1908	122	181	24	157
1909	29	29	29	—
1910	22	22	22	—
Average of ten years:				
1891-1900 ...	41	41	3	38
1901-1910 ...	105	131	32	99

To understand the full significance of the outburst of new coinage a few facts have to be considered. Mr. F. C. Harrison estimated the volume of rupee currency in 1892 at 120 crores. Sir Edward Baker estimated the loss by wastage at 2 per cent per annum and if his estimate was correct we should have started the year 1900 with a loss of about 18 crores or with about 100 crores of rupee circulation. The average coinage of the rupee previous to the closing of the mints was about 7 crores, of which the Government estimated that a half went into circulation. But this opinion had to be revised in the light of the experience gained by them

by the rapid absorption of silver in spite of the closure of the mints. That was the confession made by Mr. O'Conor before the Fowler Committee. If so, it would not be far wrong to put the actual addition to the medium of circulation at 2 crores which was just enough to make good the loss by wastage. We may therefore infer that previous to the closing of the mints the rupee circulation was more or less steady. The fresh coinage between 1893 and 1911 amounts to 135·65 crores. Of course, deductions have to be made to the re-coinage of old rupees which came during the same period to 37 crores and 9 crores have been taken over by the Government under an arrangement with certain native states who are supplied our own rupees. This leaves about 90 crores net addition to the currency. We have therefore a rupee circulation, exclusive of those that have come out of the hoards, of about 190 crores, which more or less agrees with Mr. Atkinson's estimate of 204 crores. The average addition per year is thus about 8 crores since 1900, while the circulation was steady before 1893. Of course, some alterations have to be made to the movements of the Government cash balances, to fluctuations of the various components of the Paper Currency Reserve and to payments of rupees into, or withdrawal of rupees from, the silver branch of the Gold Standard Reserve.

These facts explain the growth in prices and they have been remarkable in nothing more than in the price of food-grains. But the effect is not confined merely to food-stuffs and it has been felt on almost all commodities. Theory says that a general rise of prices will always stimulate imports and curtail exports, but the retardation of exports in India was not felt to the extent it would be in other countries, owing to the partial monopoly we have in certain staple products, the prices of which did not fall in proportion to the fall in the volume exported. For example, the exports of rice fell between 1904-05 and 1905-07 in bulk by 22 per cent and in value by not more than 5 per cent. The full effect of the rise of prices was felt however in stimulating imports to an extent that the imports overtook the exports, and reducing the balance of trade in favour of India which is the only bulwark against the fall of the Indian exchange. When the balance turned against us the exchange fell. The following table illustrates the effect of the inflation of currency on the external trade.

	Imports.	In millions sterling. Exports.	Balance in favour of India.
1902—3	74	92½	18½
1903—4	87½	112½	25
1904—5	96	116	20
1905—6	96	118	22
1906—7	108	121½	13½
1907—8	119	122	3
1908—9*	71	67	—4

* first eight months.

The adverse balance of trade in 1908-09 was the signal for the fall of exchange. We had therefore one cycle of rapid coinage of rupees, increased prices, steady reduction in the balance of trade in favour of India, culminating in the breakdown of the artificial rupee, prevented only by the suspension of the Secretary of State's drawings and the sale of bills in Calcutta on London between March and August 1908 to the value of eight millions sterling. This is the natural and inevitable result of the present monetary system which allows for an artificial inflation of the currency. Are we in for a second cycle? Another outburst of new coinage must perforce repeat the history and there is no means of preventing it till the Government decline to give notes to the sovereigns tendered which impose upon them the obligation of declining to redeem them by silver. The rupee cannot be an automatic currency with the mints closed to private coinage and the consequent divorce of the value of silver and the rupee. Absolute cessation of its coinage is necessary, which means the reduction of the rupee into a mere subsidiary token coin, legal tender only to a small amount. That is how we are going to a gold standard based upon a gold currency.

We have ventured to discuss thus far the effect on Indian prices by the present system of an artificial currency, but by no means the least important

is the effect a gold currency will have on European prices and its consequences on a debtor country like India. From the index number given on page 106, it will be seen that the demonetisation of silver by Germany and the States forming the Latin Union resulted in the steady fall of the gold prices till it reached the point 61 in 1887. The purpose which gold and silver were both performing in Europe had to be done exclusively by gold and no wonder the effect was felt immediately on the level of prices. Dr. Soetbeer's table of prices which include one hundred leading commodities, taking the figures of 1849 as a basis and estimating them at one hundred, show that by 1853 prices had risen to the ratio of one hundred and thirteen, in 1863 to one hundred and twenty-five and in 1873 to one hundred and thirty-eight. Since then there was a reversal and in 1885 he gives the number as one hundred and eight, a fall of thirty per cent. Mr. Sauerbeck's investigations made independently, take as a datum line the prices ruling from 1867 to 1877 and show that by September 1887 the general range of prices had fallen to 68·7, the lowest within the century.

It is true that the production of gold has now increased to an extent that was not calculated before and the gold prices have consequently risen. But what are the facts? The total production of gold

from 1852-56 was in round numbers £150,000,000 giving an annual average of £30,000,000. In the next quinquennial period from 1857 to 1861 the total production was £123,000,000, giving an annual average of £24,600,000. Between 1862 to 1866 the total produced was £114,000,000 and the annual average £22,750,000. Between 1867 and 1871 the total production was £109,000,000 with an annual average of £21,753,000; and in the years between 1871 and 1875 the production was £ 97,000,000 and the annual average £19,200,000. The demand which Europe then made was for £200,000,000 the annual average being £20,000,000 or ten years' production. This extraordinary demand therefore forced down prices and in 1896 the index number of Mr. Sauerbeck dropped to 55. Between 1896 and 1910 there has been a recovery of 14 points. This has been due to the remarkable output of gold from the mines during the years 1900 to 1910, which amounts to £780,000,000. The following table gives an account of the world's production of gold.

Year.	Actual Production per Annum.	
	Millions of Ounces.	Millions of £ Worth.
1901	12·9	55
1902	14·4	61
1903	15·8	67
1904	16·7	71

Year.	Actual Production per Annum.	
	Millions of Ounces.	Millions of £ Worth.
1905	18·3	78
1906	19·4	82
1907	20·0	85
1908	21·5	91
1909	22·1	94
1910	22·1	94

The annual average for the ten years 1900-1910 was about 80 millions, four times the average soon after the adoption of the gold standard by Europe. And yet the prices are 30 per cent less than what they were in 1873. Why? A recent writer in the *Statist* has computed that about 50 per cent of the world's production of gold during the last decade has been absorbed for use in arts and 40 per cent has been accumulated by the Banks leaving only 10 per cent for increase in the currency. The amount absorbed by the arts can have no influence on prices, and it is only the balance that must operate in that direction. And should the absorption by the arts grow, as it must, the amount left free to operate on prices must correspondingly diminish. And this perhaps explains the very limited effect the enormous output from the mines has had on gold prices. The index number in 1900, was 68; it fell to 62 in 1902 and 1903, recovered to 72 in 1907, fell again to 66 and 67 in 1908 and 1909 and has recovered to

70 in 1910. For an increase in the stock of gold of £780,000,000, the prices have shown no greater rise than 4 points and that was only in one year. By how much should the world's stock be augmented if prices should revert to the level that ruled in the seventies of the last century ?

And what is the effect the low prices have on India and what would be the result if we went in for a gold currency and stocked 100 millions sterling ? The effect may best be stated in the words of Professor Marshall: "A fall in prices lowers profits and impoverishes the manufacturer, while it increases the purchasing power of those who have fixed incomes. So, again, it enriches creditors at the expense of debtors; for if the money that is owing to them is re-paid, this money gives them a greater purchasing power, and if they have lent at a fixed rate of interest, each payment is worth more to them than it would be if prices were high. But for the same reason that it enriches creditors and those who receive fixed incomes, it impoverishes those men of business who have borrowed capital, and it impoverishes those who have to make, as most business men have, considerable fixed money payments for rent, salaries and other matters." What is true of individuals is also true of nations and while the creditor countries enjoy the benefit of low prices, that has been at the expense of debtor countries.

For every sovereign borrowed before 1873 we have been paying all these years at least 30 per cent more by way of interest than otherwise we would. If we had borrowed at 5 per cent, we have been paying at least 7 per cent and in some years more. The fall of gold prices has operated as an unjust unearned increment to the creditor. It is usual to speak of the drain of India at about 18 millions, but it has been really thirty per cent more. Our foreign debt is paid not in cash but in commodities and the greater the fall in gold prices the larger the volume that we should export, and calculated with the price level of 1873, the real drain is really more than what appears in Government account books. And if this is realised, we can easily understand Great Britain's opposition—unjust opposition—to restoring silver to its original value. As a creditor country it pays Great Britain to keep the prices low as it has done by driving silver out from the monetary systems of the world. But should Indians act blindly, and should they help towards the consummation of making gold the currency of India, thereby further discrediting silver and appreciating gold? For, it is by no means certain that the world's production of gold will remain the same as it is.

The theoretical aspect of the question of the unfavourable position which debtor countries occupy towards the creditor countries has been ably discussed

by two distinguished economists, John Stuart Mill and Walter Bagehot. In his essay on the Silver Question published so early as 1878, Bagehot has summarised in a popular way the economic effect on price and products of non-commercial obligatory payments by a dependency to the mother country; and in his classic work on Political Economy, there is a chapter "The distribution of Precious Metals," in which J. S. Mill has demonstrated the effect on prices and return to the producers that follows from the existence of international payments not originating in commerce and for which no equivalent in either money or commodities is expected or received. He shows that "the result is that the country which makes regular (obligatory and unbalanced) payments to foreign countries, besides losing what it pays, loses also something more by the less advantageous terms on which it is forced to exchange its productions for foreign commodities," and the result to the interest of the two countries will be "the paying country will give a higher price for all that it buys from the receiving country, while the latter besides receiving the tribute, obtains the exportable produce of the tributory country at a lower price." This theoretical expression of view about the results of non-commercial obligatory payments, was confirmed in respect of India by a distinguished official, Mr. R.H.

Hollingbury, who occupied the position of Assistant Secretary in the Finance Department of the Government of India. In an able treatise dealing with the statistics relating to the production and distribution of gold and silver with their relative values he pointed out that the exports from India consist of:—

(*a*) The exports which are exchanged against imports of merchandise. If India did not incur a large amount of Home Charges, her exports would increase, generally or chiefly, from a demand abroad for them, in which case they would go forward at a higher gold price abroad, as well as in increased quantities, causing (if not counteracted by an increase of imported goods) an increased import of silver which would raise the price of silver abroad. In other words, an increase of exports from India, if not arising from the Home Charges, will generally imply an increased gold price of Indian productions and an increased price of silver abroad, or in, say London, the world's market. This was the case during the cotton famine.

(*b*) The exports which India has to send forward to Europe to provide for the Home Charges. As pointed out by Mr. Mill, these exports not being required in exchange for goods must be offered at reduced prices abroad, so as to create an increased consumption of them. But necessarily the exports which go to England for the Home Charges (in the place of silver from India) are not ear-marked, and the reduced price at which they are offered affects also the exports which are exchanged for imported goods. Thus the gold price of

Indian productions abroad must fall, and with them must fall the price of silver; for the diminished amount, in gold value, of Indian productions which are exchanged against gold and silver, reduces the amount to be settled by an importation of silver upon the account A.

Indian "gold bugs" may well nigh ponder over this!

CHAPTER IV.

THE RUPEE POLICY OF THE GOVERNMENT.

THE policy of the Government of India in regard to the silver rupee has been incidentally referred to in some of the previous pages* and a more detailed consideration may now be attempted. That policy has been one of doubt, denial and suspicion. There has been a thorough failure of any attempt to investigate the problems relating to the alleged depreciation of silver, its causes and remedies, and the Government of India seem to have fallen a victim to the belief that it was all wrong with silver and we must therefore join in the general scramble for gold. And when once they had got to that convenient state of mind that silver is accursed, it was very easy to invent plausible grounds to condemn it and try to keep it out of the function which it was till then performing. When one ground fell another was easy to get at and it may safely be said that not even the worst opponent of the white metal would ever maintain that it was given a trial or that it was not hunted out with unsportsmanlike vengeance from discharging its natural function. It may be the case with every country that has abandoned

---

* Pages 18-22 *ante*.

the silver standard, but it has been particularly so with regard to India.

It was in 1835 that the silver rupee was formally established as the standard coin of British India, but what the state of the Indian currency was previous to that, how the people managed with their currency system, whether the supply of currency was adequate to the demand and questions of that kind, we are not in a position to answer. We are lacking in men like Thorold Rogers and Mr. Tooke to patiently investigate the question of prices and currency in the periods anterior to the establishment of the silver rupee as the standard coin, nor perhaps are the materials available for such investigation. All that is known is that no uniform measure of value existed; but that gold and silver of different value circulated in different parts of the country. In 1806 the Court of Directors of the East India Company determined to evolve order out of the chaos that prevailed and while they were fully satisfied with the propriety of the silver rupee being the principal measure of value and the money of account, did not want to drive gold entirely out of circulation. By 1818 the silver rupee displaced the gold "pagoda" of the Madras Presidency, and since 1835 gold coins ceased to be legal tender of payment in any of the territories of the East India Company. Though gold ceased to be legal tender, the Act of

1835 authorised the coining of gold mohurs and a proclamation of six years later authorised treasury officers to freely receive these coins at the rates denoted by the denomination of the pieces. The gold mohur and the silver rupee being of identical weight and fineness they exchanged at the ratio of 15 to 1, gold then representing fifteen times the value of silver. The Australian discoveries cheapened gold and the consequence was the treasuries were flooded with gold which was exchanged for the appreciating silver. This led to the East India Company withdrawing the proclamation of 1841; and gold ceased to be accepted as legal tender in the public treasuries.

How the "Gold-fanatiker"—as the Germans would call him—wishes that the East India Company had anticipated the modern demand for gold, and established forthwith a gold currency! But that was not to be and with the fine instinct of the shop-keeper they thought that silver was the best standard and currency for India and they were not taken in by the Australian discoveries. But no sooner did the administration of India pass from the hands of the Company to the Crown than the Government of India became the spokesmen of the Anglo-Indian mercantile community, at whose instance they began to importune the Imperial Government to introduce gold currency. The

Imperial Government were naturally unwilling to make the sovereign legal tender, but saw no objection to its being received at the public treasures at a rate fixed by Government and publicly announced by proclamation. It was therefore notified in 1864 that sovereigns and half sovereigns should be received as equivalent to 10 rupees and 5 rupees respectively in payment of Government dues. In 1865 the Government of India again pressed upon the Imperial Government their original proposal to introduce gold currency and issue notes redeemable by gold or silver, but the Secretary of State for India remained unconvinced. The attempts made by the Government of India in 1878 and 1886, and the replies of the Secretary of State for India and the Lords Commissioners of the British Treasury, have already been referred to.

How under the circumstances Sir Guilford Molesworth was able to make the following declaration before the Brussels Monetary Conference of 1892, remains an enigma. Sir Guilford Molesworth was the representative of the Government of India and he said :—

As long as there is any hope of seeing an international agreément concluded, the Indian Government hesitates to modify the system in force at present.

The Committee * which has been appointed in Eng-

* The Herschell Committee.

land especially to study the monetary system of India has adjourned during the Conference at Brussels. But if this Conference arrives at no conclusion, India will be obliged to act for herself. The adoption of the gold standard in India will be fraught with grave difficulties, but it will be much worse for those countries which already use gold than for India herself, with her two hundred and fifty million inhabitants.

The only satisfactory solution would be the adoption of international bi-metallism, in which India should join the Latin Union and the United States.

If the adoption of a plan submitted to the Conference renders probable the maintenance of a relative stability in the price of the metal, it is not likely that the Government of India would close its mints to silver. Even if the plan should meet with only partial but sufficiently important adhesion, the Government of India, without relinquishing its liberty of action, would be disposed to buy silver, or to permit the coinage of a fixed quantity of silver—not less than fifty million rupees a year—during the entire duration of the arrangement.

So far as we remember, the Government of India have never been warm over the settlement of the question by international agreement and by the adoption of bi-metallism. They have always been for going in for a gold standard. The clue for Sir Guilford Molesworth's declaration may perhaps be found in the very little enthusiasm which the then Secretary of State for India, the Earl of Kimberley, is reported to have displayed to the policy of the

closure of the mints which the Government of India were pressing upon him and which he had to approve at the instance of the Herschell Committee. Perhaps too he caught the contagion from Sir David Barbour, the then Finance Member of the Council. Anyhow, when the Brussel's Conference met at the instance of the Government of the United States, the value of silver measured by gold, if not by commodities, had considerably fallen and Lord Rothschild was compelled to raise a weighty warning at the initial stages of the proceedings that "if this Conference were to break up without arriving at any definite result, there would be a depreciation in the value of that commodity which it would be frightful to contemplate and out of which a monetary panic would ensue, the far-reaching effects of which it would be impossible to foretell." Lord Rothschild was a strict mono-metallist, but the Indian condition was thus stated at the same time by Sir David Barbour, an equally enthusiastic bi-metallist: "The disastrous and unprecedented fall in the gold value of silver which has been experienced during the last few years has destroyed confidence, and we know that the question of stopping their purchases of silver is being seriously agitated in the United States of America. The exact consequences of such stoppage it is impossible to foretell; but the conclusion I have come to is that the consequences would, at any rate

for a time, be disastrous to the Indian Exchequer, and that the Government of India would in such case be involved in pecuniary difficulties of greater magnitude, and more lasting in their effects, than any which have hitherto been experienced in this country."

In fact ever since the demonetisation of silver by Germany and the States forming the Latin Union and the formal adoption of the gold standard by Austria Hungary and Russia the value of gold and silver began to depart from the old ratio of 15 to 1 which had prevailed for seventy years, from 1803 to 1873. Not only did silver fall in value but the price of commodities in general also fell. As a gold-using country England felt the effect of the fall of prices more acutely than any other country and the result was the appointment of a Royal Commission on Depression of Trade in 1885. The Commission after patient investigation arrived at these definite conclusions:—(1) That the depression dated from the year 1873 or thereabouts. (2) That it extended to nearly every branch of industry, including agriculture, manufactures, and mining, and that it was not confined to England, but had been experienced to a greater or less degree in all the industrial countries of the world. (3) That it appeared to be closely connected with the serious fall in general prices, which even then was most observable, though it has

since been more strongly marked, resulting in the diminution—in some cases even the total loss—of profit, and consequent irregularity of employment to the wage-earners. (4) That the duration of the depression has been most unusual and abnormal. (5) That no adequate cause for this state of things was discoverable, unless it could be found in some general dislocation of values caused by currency changes, which would be capable of affecting an area equal to that which the depression of trade covered. As a result of these findings the Gold and Silver Commission was appointed in 1887-88 which only confirmed them.

To what was this divorce of the gold value of silver from the old ratio due? Was it due entirely to the demonetisation of silver by European countries or was any other factor at work which materially contributed to the fall in the value of silver? Was it due entirely to the action of Europe or did India contribute anything towards that consummation? The Royal Commission on Gold and Silver in their Final Report (Part 1) signed by all the members of the Commission wrote:—

Now undoubtedly the date which forms the dividing line between an epoch of approximate fixity in the relative value of gold and silver, and one of marked instability, is the year when the bi-metallic system which had previously been in force in the Latin Union ceased to be

in full operation, and we are irresistibly led to the conclusion that the operation of that system, established as it was in countries the population and commerce of which were considerable, exerted a material influence upon the relative values of the two metals.

So long as that system was in force, we think that notwithstanding the changes in the production of and use of the precious metals it kept the market price of silver approximately steady at the ratio fixed by law between them, namely, 15½ to 1.

The amount of silver that was thrown out of the market was no doubt considerable and during the first seven years after the demonetisation of silver by Germany, the silver so thrown out amounted to 840,000,000 fcs. But there was one other circumstance operating silently but perhaps more effectively and which was not perceived by writers on currency of that and subsequent period. It is remarkable that public attention should not have been drawn to it inasmuch as Mr. Goschen's Silver Commitee had made mention of it in 1876. It was demonstrated in that report that the influence of the Council Bills in keeping down the market price of silver was far more weighty and persistent than the effect of the increased production and partial disuse of silver. The Report pointed out that "the supply of a different form of remittance, namely, Government Bills, has superseded to a great extent the necessity of remitting bullion ;...the effect of this

substitution has to be measured in very large figures ......To the merchant and banker remittances in these Government bills are equally, if not more, convenient than a remittance of silver;......it will be seen that, though the total amount of treasure and bills together remitted to India during the last four years (1872-76) has but slightly declined, the proportion between the two has been entirely reversed." After remarking that the then average sum of Home Charges due from the Indian Government was 15,000,000*l.* the report proceeded: "This is the sum which has to be paid annually by India (on State account) to England, and this sum *pro tanto* displaces the despatch of bullion." The effect which this displacement must have produced may be conceived from the following figures:—

Council Bills drawn from 1862 to 1872 (both inclusive) ...	Rs.	716,156,776
Council Bills drawn from 1873 to 1883 (both inclusive) ...	,,	1,754,045,677
Annual average of former period ...	,,	65,105,160
do. latter period ...	,,	159,458,098
Net imports of treasure during 1862-72...	£	159,660,000
do. 1873-83 ...	,,	82,190,000
Annual average of former period ...	,,	14,510,000
do. latter period ...	,,	7,460,000

It will be apparent from the above that when the Council Bills increased the importation of treasure decreased. In other words the Secretary of State for India went on year after year selling about fifteen

crores of rupees, thereby depressing the silver market, by the side of which the German demonetisation of silver was a mere bagatelle. The silver so displaced by him between 1870—1893 is given below:—

1870—75	Rs.	604,204,000
1875—80	„	756,008,612
1880—85	„	978,480,523
1885—90	„	953,630,371
1890—91	„	211,869,300
1891—92	„	235,714,369
1892—93	„	259,897,896
		3,999,805,071

Between 1870 and 1893 the Secretary of State for India had sold bills to the extent of nearly 400 crores. Now the total production of silver during that period was about 305 crores which is 25 per cent less than what India would have consumed had it not been suffering from the peculiar politico-economic drain unparalleled in the history of the world. Those who, like Mr. Weber before the Brussels Conference, have been urging that the fall of silver was due to overproduction of that metal and the political and economic writers of the time who found in the currency changes of Europe the true cause for the phenomenon seem to be equally wide of the mark, for while these were "seen" the silent operation of the Secretary of State for India in superseding the despatch of silver bullion to the east and depressing its price has been "unseen." It may be recalled here that the treaty creating the Latin

Union, to which the Royal Commission on Gold and Silver attributed the steadiness of the ratio between the two precious metals, came into force only in 1865 and for 62 years prior to it France alone was responsible for the steadiness of exchange. Had India not to pay the heavy Home Charges, how much silver would it have consumed and how successfully would it have maintained the parity of value? It is of course hardly necessary that India should have consumed all the 400 crores it had to lose by way of Home Charges. In fact there was scarcely enough silver to go round. During 1870—1893 India had consumed about 165 crores worth of silver inspite of the "drain" and the United States were compelled by the Bland Act to purchase 24 million ounces annually, which was raised to 54 millions by the Sherman Act. It is only fair to infer that India would have consumed whatever was left by the other Powers and that by its growing wealth and general prosperity, which should have followed the stoppage of the Home Charges, would have contributed to the stiffening of the value of silver. People would have gone in for more silver ornaments and utensils, signs of growing material prosperity.

It was of course convenient for the Government of India to forget this aspect of the question and the battle of the standards was fought on less formidable grounds. Definite proposals were put forward by

Mr. Rothschild before the Monetary Conference to try the experiment of the European Powers purchasing certain quantity of silver for a period of five years for subsidiary use, which along with M. Livy's proposals for a more extended use of silver, were thrown out and the Conference began an academic debate on International bi-metallism, which was a signal for it to adjourn without arriving at definite conclusions. And that it did. The Lord Herschell Committee, which had meanwhile been adjourned to await the result of this wordy duel between the advocates of bi-metallism and mono-metallism, recommended the closure of the mints to the private coinage of silver as the only step that could be taken under the circumstances. The object was declared to be not only to prevent the further fall of the gold value of silver, but to change the monetary standard of India itself. It was therefore declared that gold coin and bullion would be received at the mints at a rate of 1*s.* 4*d.* to the rupee and that the sovereign and half-sovereign would be similarly received in payment of sums due to Government. These measures did not immediately push up the value of the rupee. It was not before 1898 that the rupee which stood at 14·5*d.* in 1893 rose to 15·98*d.*

But was this rise in exchange due to the closing of the mints? This was Mr. O'Conor's explanation of the phenomenon :—

989. Now what do you consider the cause of the very remarkable and steady rise of exchange between 1894-95 and 1897-98—I mean steady rise from year to year, not from month to month or week to week?—I am inclined to attribute the rise to the diversion of rupees from the commercial centres to the interior of the country for the purposes of famine relief, for the purposes of military operations on the frontier, and for the purpose of railway construction.

990. You think that is the cause of the rise in exchange?—I think so.

These then were the circumstances that led to the stiffening of exchange. The Government of India were themselves not satisfied with the success of their policy in closing the mints and in 1898 they proposed to melt down about ten crores with a view to raise exchange by the contraction of the rupee currency. Since the closing of the mints in 1893 the country had been left without a proper standard the evils of which they proposed to further aggravate by melting down the existing rupees. To melt down ten crores would have been to reduce the currency by at least 10 per cent and as gold was not legal tender at that time, the effect would undoubtedly be to increase the burden of the debtor at the expense of the creditor. The fine contempt with which they regarded the proposal of the Bengal Chamber of Commerce to close the mints in 1877 was cast to the winds and the superior air with which they declared

that "no civilised Government" would be "justified in leaving the community without a fixed metallic standard of value even for a short time," was coolly forgotten. They did not care if the fall in prices, which should result from a contraction of the currency, would injuriously affect any large section of the community. All that they cared for was to stiffen exchange which they must at any cost. The point was made clear by Mr. J. F. Finlay, C.S.I., Secretary to the Finance Department in the Government of India, who in reply to Mr. Hambro's questions before the Fowler Committee said:—

2984. (*Mr. Hambro.*) You say that one of the objects you hope to obtain by the contraction of the currency is the raising of the price of the rupee—the exchange value of the rupee?—Yes.

2985. Suppose that the exchange value was 1*s.* 3*d.* and you contracted the coinage enough to drive it up to 1*s.* 4*d.*, and suppose that all things were the same on this side—I mean prices of freights and so on—would not that be equal to 7 per cent tax on all production?—It would be making the rupees paid in payment of taxes more valuable. In all business transactions fewer rupees would be paid and received in proportion to the increase in the value of the rupee.

2986. Would it really mean a tax that the tax-payer perhaps did not see, but really a hidden tax on all the production of every farmer and everybody in India to the extent of 7 per cent?—On everyone who had to pay

to the Government taxes of an amount fixed in rupees before the change in value occurred.

2987. You say the contraction of the rupee would drive it from 1*s.* 3*d.* to 1*s.* 4*d.* That can only be done by the producer selling his products so low because he wants rupees, and the only way by which he can get rupees is to sell his products at a low price—that it will bring back gold from London for which he can exchange rupees?—Yes.

2989. The loss to the Indian Government between 1*s.* 3*d.* and 1*s.* 4*d.* on its remittances home comes to about what?—Under two crores, Rx. 1,600,000.

2990. Call it two crores. What do you think would be the loss to India on a 7 per cent tax on the whole production of India?—I suppose it would be very great.

But the Government was not concerned with that. In fact there has been throughout the controversy very little effort to understand and appreciate the consequences that are likely to accrue to the great producing and debtor classes in India by its rupee policy. The closing of the mints itself was a game of blind-man's buff. Perhaps, nobody has subjected the scheme of the Government to a more scathing condemnation than Mr. R. B. Chapman, C.S.I., Secretary to the Government of India in the Department of Finance and Commerce from 1869 to 1881. As one who had pondered over the facts for more than 20 years, he declared that "a State which interferes purposely to change the intrinsic value of

money incurs a responsibility, the weight of which can be measured only by the far-reaching consequences of such interference. Every increase to the intrinsic value of money adds to the money obligations of every member of the community; every decrease diminishes them.......and an order for the increase of the value of the standard money would, if its effects were understood, produce a revolt. It would not be understood; but to a conscientious Government, this is only a powerful reason for taking no such action, except under an overwhelming sense of responsibility and compulsion".

And what of the necessity? "The present trouble," wrote Mr. Chapman, was felt "not by the people of India as a whole, but only by those interested in the foreign commerce of India, and by foreign sojourners, represented chiefly by the British officers of the Government, none of whom ever relinquish their British domicile." "To tamper with the monetary standard of this vast population," he continued, "for the sake of what is relatively a small, and mainly a foreign, interest, would savour of setting another person's house on fire to roast one's own sucking pig; it would, indeed, be something like the betrayal of a national trust, a trust all the more weighty and binding, in that Great Britain does not, in its discharge, take the people themselves into council, but reserves the whole undiluted

responsibility to herself." He warned that the heavy gold burden was borne with unexpected ease because India had economically prospered with her silver standard and that "it would be a calamity for her, indeed, to have this burden further aggravated by the action of her own Government, and all her other debts enhanced also, to say nothing more of the immeasurable injury entailed upon the working members of her community." Never was an Anglo-Indian official, and one too who had occupied the position of Secretary to the Finance Department of the Government of India, more outspoken!

In spite of these warnings, however, the Government began to perfect their scheme for the introduction of the gold standard and link the rupee with the sovereign at the rate of 16*d.* which had been reached in 1898-99; and sovereigns and half sovereigns were made legal tender in September 1899. The exchange standard was only to be temporary and Sir Henry Fowler's Committee contemplated the early passing into a gold standard. For that purpose it was necessary that rupees should be given by Government to gold and gold for rupees. And since the second obligation imposed upon them the duty of keeping a gold reserve the Committee recommended that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India,

but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances. The gold reserve was intended to be available for foreign remittances whenever the exchange fell below specie point and the Government of India were to make the gold available for this purpose whenever necessary under such conditions as the circumstances of the time may render desirable. In the early years there was very little demand for gold; on the other hand gold was tendered in exchange for rupees and in 1900 the Government of India had to face the problem of the shortage of rupees—one of the inevitable consequences of the new policy.

The operation was carried on through the Paper Currency Reserve which is held against the note circulation. There is no limit for the issue of notes, only the whole amount in circulation should be secured by a reserve of gold and silver, coin or bullion, and securities of the Government of India and the United Kingdom. The fiduciary reserve has been increased this year to 14 crores from 12 and the metallic portion of the reserve may be held in England or India, in bullion or coin, provided of course the rupee is held entirely in India. And it is the rupees held in the Paper Currency Reserve that are handed over to the depositors of gold, which are, however, replaced by the purchase of

silver and the subsequent coinage of rupees. It is obvious that there is a limit to the rupees that may be thus released from the Paper Currency Reserve and that was the difficulty felt in 1900 when the gold in the reserve rose to 7½ millions and silver fell to the dangerously low figure of 3·7 crores. The Government was therefore bound to commence an era of brisk coinage which in that year totalled 17 crores. The policy of keeping the rupee currency in check had to give way as well as that of circulating gold. The demand for rupees continued in all the fury of pent-up force and did not cease till eight years after.

If ever the conditions favourable for the circulation of gold existed, it was then. The circulation of the rupee currency was limited and gold began to accumulate in the Paper Currency Reserve. It ought in the nature of things to have gone in for circulation. But it did not. And there was therefore no sense in forcing the despatch of gold to India to be re-shipped again to London for purchasing silver to make good the deficiency in the Paper Currency Reserve. The Secretary of State for India, therefore, adopted the convenient expedient of selling Council Bills in excess of his demands. In 1904-05 the drawings amounted to 36 crores, in 1905-06 to 48 crores, and in 1906-07 to 50 crores. Inspite of these heavy drawings considerable

quantities of gold began to pour into India and congested the Paper Currency Reserve. In 1900 the gold held was 11·25 crores, in 1902 it was 10·54 crores, in 1903 it was 14·79 crores, in 1904 it was 16·18 crores and in 1905, 16·11 crores. It was therefore resolved in the following year to establish a branch of the Paper Currency Reserve in England and in the course of the year 6,000,000*l.* were withdrawn; so that not only are we accommodating the London money market by keeping there the Gold Standard Reserve, but also a portion of the Paper Currency Reserve.

To pay, therefore, rupees to the gold tendered in the Paper Currency Reserve, it was necessary that there should be enough stock of coined silver. In 1904 a quantity of silver partly prepared for the coinage of 3 crores was kept as "Ingot Reserve." This proved insufficient and the mints had to be working at high pressure. It was also dangerous to withdraw silver from the Paper Currency Reserve as it might be required at any moment. A separate silver branch of the Gold Reserve Fund was created and was brought up to its proposed limit of 6 crores in 1907. This policy evoked considerable opposition at that time. It was contended that the Gold Reserve Fund must be kept in gold and not in silver. At all events to keep 6 crores in silver, it was urged, was the same

as withdrawing 4 millions from the slender reserve, barely sufficient to steady exchange. The alternative would have been to raise gold loans for new coinage of silver or reduce the cash balances, both of which were found unsafe to adopt. And as it was the function of the Gold Reserve Fund to maintain the exchange standard, it was only fair that it should serve the purpose of supplying silver when required, as it should supply gold. To avoid all confusion the very nomenclature of the Fund was transformed into the Gold Standard Reserve. In fact the policy of the gold standard had so signally failed that not only was there no circulation of gold, and that a considerable portion of the reserve had to be kept in silver to satisfy the rupee-hunger of the people, but the existing gold itself was found for the time-being in excess of the requirements and in August 1907 one-half of the profits on coinage was, on the advice of the Indian Railway Finance Committee, devoted to capital expenditure on railways. Nearly a million and a quarter was actually devoted to this purpose, but the opposition it provoked was so strong that it was soon abandoned.

But the period of trial was not long deferred and the Government were soon face to face with a crisis towards the end of 1907, which they had long desired to avert. We have dealt elsewhere with the phenomenon that resulted in the collapse of

1908 * and the narrative may be given briefly. Up to August 1907 exchange had followed its normal course and stood at 1*s.* 4*d.* In August the demand for money showed signs of slackening owing to the prospects in the jute trade. Next month the monsoon failed and the rains disappointed particularly over the wheat-growing areas. In October it was clear that the export trade in wheat would dwindle into insignificance. And the situation was further complicated by the failure on the 20th October of the Mercantile National Bank of the United States of America. The failure of the Bank created a sudden panic and the effect was felt instantaneously in London where the Bank rate of the Bank of England rose to 7 per cent—a rate which was not experienced since 1873. The slackening of the export trade destroyed for the time the market for the Secretary of State's bills and on November 6, tenders dropped to 1*s.* $3\frac{29}{32}$ *d.*, on the 13th to 1*s.* $3\frac{13}{16}$ *d.*, on the 18th to 1*s.* $3\frac{3}{4}$*d.* and on the 25th to 1*s.* $3\frac{11}{16}$ *d.* Again in 1909 the country began to revive in the first financial quarter from the effects of a depressed European market and a heavy famine in Northern India. Trade was quickening and the Secretary of State for India was able to sell heavy drafts, and had restored two millions of gold he had parted with. The outlook was unmistakable. Northern

* See page 110, *ante*.

India was safe with a fine spring harvest; and the foreign market for our yarns, cotton and oilseeds continued active, while the import of bar silver fell very substantially. In May began large exports of wheat, which were abnormally heavy while they lasted. Conditions for a favourable exchange could not have been more favourable. From April to August the net exports on private accounts amounted to close on 20 crores, as against $16\frac{1}{2}$ in the same periods of 1906 and 1907, and a small excess of imports of 1908. In September there came a slight check and the excess of imports over the exports was a crore, which was but a transitory incident. The exchange which stood at 1*s.* $3\frac{29}{32}$*d.* in the beginning of April, stiffened at 1*s.* 4*d.*, by the end of the month. With the abrupt stoppage of the wheat exports a shade of weakness came over the market and the rate was forced down once more below the gold point.

Thus it will be seen that within the short space of two years exchange fell twice, but the action of the Government was timidity itself. The Secretary of State took immediately the first step open to him, namely, to stop the sale of Council bills and when that failed, he grew nervous and the Government declined to give gold freely to those who wanted to export. The essence of the gold standard was its convertibility and the Government was bound to act

boldly, if the need was felt, by giving gold freely for export. All that they could be induced to do was not to issue gold in larger quantities than 10,000*l.* to any individual on any one day. And the Secretary of State for India released 2½ millions, a million on the 25th November, another million on the 6th December and half a million on the 18th December. Should this fail, it was arranged that telegraphic transfers on London should be offered for salein India at a fixed rate and between April and August 1908 bills for over 8 millions were so sold. In defending this policy of timidity Sir Edward Baker stated during the budget debate in 1908 that "if hereafter at any time circumstances should arise which make the employment of the Gold Standard Reserve justifiable and expedient, the public may rest assured that there is no hesitation about using it." With that assurance we have to be content.

The history of these years is full of import and its lessons cannot be forgotten with impunity. Sir Fleetwood Wilson was constrained to admit, what Lord Rothschild had insisted upon, that "it is the relation between our imports and exports which, in the last resort, decides, whether we are to keep gold or to lose it," or in other words whether exchange shall be steady or fall. If the balance of trade in our favour occupies a safe margin, that is to say, is enough to meet the

Secretary of State's demands, the exchange may be expected to be steady, otherwise it must fall. What circumstances contribute to the stimulating of the exports and what to depressing them? And how far do they operate?

The one outstanding feature of the Indian situation is the annual "drain" of about 20 millions sterling. This is obviously not the place to discuss the merits of that question; whatever the justice and the morality of it, there is no doubt of the fact of its existence. Without it perhaps we may keep going the gold exchange standard as long as we please, but with it the gentlest of monetary disturbances has been able to upset all the refined calculations of Anglo-India. But there is one item in it which has a special bearing on the question. Of the 18 millions that make up the "drain" the interest charges alone consume about ten millions. The spending departments seem to have entertained but hazy notions about the advantages of loan-mongering after the wisdom of Panerge, the sublime creation of the old philosopher of France, Maitre Francois Rabelais. "Sweet are the uses of loans and sweet is the life of him who borrows," seems to have been their liturgy and in the high-spirited words of Panerge, "whoso lendeth nothing is a creature ill-favoured and wicked, a creation of the ugliest devil of Hell." Why, there cannot be a

world without debts! "Behold among the planets there will be no regular course whatever; they will all be in disorder. Jupiter not reckoning himself in debt to Saturn, will dispossess him of his sphere, Saturn will ally himself with Mars, and they will put all the world in confusion"—and as for the poor Indian—well, he must borrow and enjoy the sweet felicity of ever being in debt!

Such has been the wisdom of the imperial arithmeticians at Simla and Whitehall, and as a silver loan will not lead to ruin, we must perforce borrow in gold. In catch-books on political economy the loan-mongers have learned that loans for reproductive works are not a source of national exhaustion, but a fundamental source of recuperation. Just as an individual has a right to borrow his capital, if his profit would pay the interest and give him a fair wage for superintendence, even so nations have a right to borrow their capital should it be employed for productive purposes. And nations indeed have grown rich by the process of endless borrowing. They point indeed with pride to the increasing burdens of the United States, of Australia and the Colonies which seem to thrive wonderfully upon the capital of Lombard Street. And since the United States has in spite of its excess of exports over imports, which in the language of the pessimist should suck its life-blood, thriven so wonderfully well and

since the Colonies are rolling in plenty and prosperity, it should be the height of pedantry to bemoan its results in the Indian dependency. The force of logic, we confess, cannot go further and if only the conditions of the United States, Australia and the rest of perpetual loan-mongers, were on all fours with those of India, it would be unassailable. But then Mr. Wilson is harping upon the theme that the Colonies are riding for a fall—which is no matter for us. It is the concern of the good people of the Colonies.

But the conditions of India are quite different from those of these foreign countries. Especially two material factors accentuate the acuteness of the difference. The first is, India is not a new country with unlimited sources of wealth ready to open its bosom to the enthusiastic new-comer eager to tap all the wealth he could. It is an old country with settled social and economic conditions. No new institutions can be imposed upon it at will by the commonalty of the people without serious detriment; and attempts made that way would disintegrate and disorganise institutions which would involve incalculable waste. The second is, the country is sufficiently peopled and there is no scope for any extensive colonisation of the whites. Even if land was available, the climate is a serious bar. Whatever progress has to be achieved therefore

must be by means of the population now extant, and it depends on the way in which they can work upon existing institutions, cribbed, cabined and confined as they are by centuries of inertia. Where the people are few and active, land is fertile and extensive, and social and economic conditions can be imposed at will, where the past does not fetter and the future is in their own hands, there capital may be borrowed in the certain hope of being paid back. Not so where the conditions are the reverse. An old man of seventy does not borrow as lightheartedly as an active youth of thirty.

We venture to think that it is necessary to emphasise this point of view as it is apt to be too readily ignored. Because the United States, Australia and other Colonies open out railways with feverish activity by the capital of Lombard Street, it is argued India also should; for railways are a sign of civilisation. But a purely agricultural country does not want the same net-work of railways as a busy industrial country wants. Life here is dull, prosaic and cheap and there is not a large movement of men and goods to the extent there is in industrial centres. In India at any rate every locality more or less produces the agricultural products it wants and large movements of food crops are not necessitated except in times of famine. Local deficiencies are met by movements of food-grains by country-carts and other

primitive conveyances. And famines have been recognised to be famines of money and not of food. Railways are thus not a necessity to the peasantry, the large body of agriculturists who live on land. They are only wanted by the foreign exporter who manages at present to drain away about three per cent of the food-grains out of the country. Competing with the non-peasant, he raises his cost of food, thereby starving millions who otherwise need not starve. It is a price which the country may have to pay for the privilege of international trade. No doubt it is an advantage to the agriculturist, if the alien middleman allows him any; but it is a loss to the rest of the community whose interests require as much safeguarding.

One of the chief reasons urged in defence of this breathless expansion of 'reproductive works' on borrowed capital is that thereby the country is opened up for foreign trade, the export of surplus commodities to countries that need them and the corresponding increase of imports, which is wealth. The surplus cotton, wheat, jute and other exports would have run to waste if the kindly lender of Lombard Street had not freely advanced loans for the construction of railways and the growers of these exportable commodities would have been the poorer for it. Happily, bureaucratic wisdom has come to the relief of the oppressed multitude and not only

have these people been benefited, but the other resources of the country that have lain concealed have been steadily developed by its magic touch. We have coffee estates and tea plantations, rubber cultivation and mine-digging, all at the expense of borrowed cash, albeit the sons of the soil may get but coolie wages. Three hundred millions of foreign money for reproductive works and an unaccountable sum in private trade and industries that 'develop the resources of the land,' have contributed to the rising of wages, to the opening of new avenues of life and new means of national enrichment, to the rising of the standard of life and cost of living, in fact to the bringing of the social and economic life of the country into line with that of western countries, that we should all have nothing to complain about. Ceaseless complaining and cavilling is a base and ungrateful return for all that borrowed capital has done and may do! That is the modern economic gospel.

Let us grant that borrowing is the essence of progress on modern lines. There should indeed be a limit to it, and that limit is measured by the ability to pay back, if not the capital, at least the interest on it. We do not know what it is with the outlying 'limbs of the empire,' so brimful of hope, enthusiasm and we trust resource; but Mr. Wilson is of the opinion that they pay their interest by borrowed

capital. In India at all events the interest is paid by the tax-payer from the general revenue. There were but few years since these huge reproductive works were begun when they paid their way and the net loss to the State has been during the fifty-years about fifty millions sterling or a million a year. During the past few years they seemed well enough to stand on their legs, but the era of deficit has begun again and in 1908, the deficit was over a crore, excluding annuity payments for railways purchased by the State. That is to say, after paying working expenses, these "reproductive works" do not produce even so much as to pay the interest charge and the State has to make good the loss by levying taxation upon the people to the tune of a crore and a half per year. In fact Sir James Westland, a former Finance Member, was proud enough to boast that we did not pay a much heavier sum than that for the luxury of owning thirty thousand miles of railways with all their concomitant glories. And the more the lines laid the greater will be the charge on the general revenue.

In one of his budget speeches Lord Morley referred to the socialistic experiments that the Government of India were making with singular success. Socialism must indeed have a fascination for him, as for anybody else, if only it was practical; but the experiments, as Lord Morley was pleased to call the

railway undertaking, are unfortunately object-lessons in failure. The chief objection for State socialism, as it has been raised in the West, is its tendency to waste, which a private joint stock company would exercise a watchful vigilance upon. So strong is the tendency to wastefulness on the part of the State that John Stuart Mill even opposed the transference of the administration of India from the East India Company to the Crown on the ground that the administrative burdens on the people would be very heavy. In England especially railways are under the management of private companies, which always look to the steady increase in the margin of profit. Unregulated individualism may have its drawback, but that State socialism is extravagant is sufficiently illustrated in the case of India. A private joint stock company would not invest in property which would not pay; but the State does not care so long as it can somehow make good the loss. It has invested monies in property which does not pay the interest, and it must throw good money after bad because there is no escaping it. Having committed a folly, it hopes to retrieve its fortunes by further follies and so long as an avaricious public lends for interest and a patient people can bear the burden, so long the scheme of rapid expansion of railways can go on. It is not that the people crave for it or the investment is good, but the capitalists want it.

We have dwelt so long upon this aspect of the question because the gold loan has been one of the prime causes for all our financial embarrassments and currency difficulties. If the loans have been contracted in silver and within the country some of the observations we have made above might admit of modification, but not only have we been insensibly pursuing a policy of gold loans for purposes which might better have been performed by silver loans, but we are also compelled to go on in the same course in order to avoid the greater currency difficulty. Having raised 300 millions, the problem that stares us in the face is, shall we go on adding to the debt, thereby relieving the Secretary of State for India from selling his Council bills to the full amount, or shall we by allowing him to draw to the full amount depress exchange? It is notorious that the competition of the Council bills with commercial bills has always had the effect of depressing exchange and the Secretary of State had always to try the expedient of stopping selling bills if he wanted to steady exchange. And so far as exchange is concerned heavy gold borrowings have the same effect as the suspension of the sale of Council bills. The sterling loan on account of public works stood at 152·9 millions sterling in 1903 and it has risen to 218·8 in 1910 or by nearly 66 millions in seven years. It comes to an average of 9½ millions per year. In

other words, the Secretary of State for India has been enabled to suspend half his drawings and yet it may be recollected that exchange fell twice during the period!

But the problem in India has been further complicated by the fact that there has been a heavy import of private capital into the country which though while it is being imported prevents the fall of exchange, must depress it when it is exported or its annual interest is being paid for abroad. What the amount of the private capital invested during the last few years has been it is difficult to calculate with any degree of precision, but an examination of the import and export statistics and the sale of Council bills gives some clue. The remittances which India has to make must equalise the sums due to it in any year. The sums that are owing to India in any year are the value of her exports, the private capital invested during the year and remittances sent to people living in India or spending their holidays. On the other side are the sums due on behalf of our imports, the total of the Secretary of State's bills, remittances abroad on behalf of the private capital invested in India and remittances on private account by the numerous body of English people who are carrying on business or trade and by civil and military officials. Some of these figures are known while some others can only be approximately

stated. We may dismiss the remittances paid to people living in India from abroad as of no great consequence, but private remittances home can only be guessed. If we deduct the Council bills from the balance of private trade, we get a net result of the remittances home and the new capital invested during the year. The following table illustrates it :—

IN MILLIONS STERLING.

Year.	Balance of private trade.	Council Bills.	Invisible balance for or against India.
1903-04 ...	29½	24	—5½
1904-05 ...	24	24½	+ ½
1905-06 ...	29½	31½	+2
1906-07 ...	31	33½	+2½
1907-08 ...	13½	15	+1½
1908-09 ...	10	6	—4
1909-10 ...	26½	27	+ ½

It will be seen from the above that while in 1903-04 the remittances abroad have increased the investment of private capital by 5½ millions and in 1908-09 by 4 millions, there has been a steady influx of capital between 1904-08 which revived again in 1909-10. But what is the sum total of remittances home? It consists, as we said, of interests on investments and the savings of the official and non-official community. The second item cannot be definitely stated: all that we can do is to guess it. Perhaps

we may put it at 5 millions sterling. As to the investments Mr. Paish has recently made the following estimate :—

	£ (000's omitted).
Government	178,995
Municipal...	3,522
Railways	136,519
Banks	3,400
Commercial and Industrial, etc.	2,647
Electric lighting and power	1,763
Financial, land and investment	1,853
Gas and water	659
Iron, coal and steal	803
Mines	3,531
Motor Traction and manufacturing ...	90
Oil	3,184
Rubber	4,610
Tea and coffee	19,644
Telegraphs and telephones	43
Tramways	4,136
Total ...	365,399

If we deduct from this the investments in railways we get an estimate of £228,880,000. But there is another estimate made by Mr. H. F. Howard which slightly exceeds this. In his book on *India and the Gold Standard* * he estimates the foreign investment on Government loans at 210 millions, railway annuities 73 millions, loans of local bodies at 10 millions, companies registered in India at 20 millions and companies with a sterling capital at 111 millions

* Thaker Spink and Co., Rs. 4.

or a total of 424 millions. This leaves out of account the figures relating to English banking, loan and insurance capital employed in India, etc. and Mr. Howard puts the whole estimate at 450 millions. Deducting from this the Government loan of 210 millions, payment for which is made by the Secretary of State for India through the sale of Council bills, we get a rough estimate of 240 millions. At 6 per cent interest and profits the annual remittance would come to about 15 millions and including the savings of officials and non-officials, to 20 millions. The foreign capital invested then will be :—

IN MILLIONS STERLING.

Year.	Private remittances.	Invisible balance for or against India.	Investments.
1903-04 ...	20	$-5\frac{1}{2}$	$14\frac{1}{2}$
1904-05 ...	20	$+\frac{1}{2}$	$20\frac{1}{2}$
1905-06 ...	20	$+2$	22
1906-07 ...	20	$+2\frac{1}{2}$	$22\frac{1}{2}$
1907-08 ...	20	$+1\frac{1}{2}$	$21\frac{1}{2}$
1908-09 ...	20	-4	16
1909-10 ...	20	$+\frac{1}{2}$	$20\frac{1}{2}$
Total for seven years.	...	...	$137\frac{1}{2}$

Does this sum then represent the total of foreign investments during the last seven years? Of course the amount can only be a guesswork. It depends entirely upon the private remittances that have gone

out or should have gone out. Professor Keynes is of opinion that it is the influx of capital from abroad that has contributed even more than the favourable balance of trade to the rise of prices. Sir Fleetwood Wilson declared that during the year there has been no new coinage adequate to the large volume of trade that has been carried. Has a large portion of this trade been financed by the heavy importation of private capital during the last seven years? A great increase in the value and volume of exports in 1901-02 was followed up by a further and a greater increase in 1903-04. This movement, which followed on a number of years during which the value of exports had remained on the whole stationary, argued Mr. Keynes, was due to prosperous activity and to rising prices in the case of several important commodities, raw and manufactured cotton, wheat, rice, and seeds being at this stage the most important. The new wave of prosperity seems, not unnaturally to have required and attracted foreign loanable capital in a more ample stream than during the years immediately preceding it, and this circumstance, combining with a large excess of exports over private imports, swelled the sale of Council bills to an unprecedented extent, the influx of new capital being on the whole, the more important factor of the two.

The more then the importation of private capital the greater the chances of the failure of the

exchange. All the time it is being imported it of course steadies exchange, but when it has to be returned back or its interest remitted home, the problem that will confront the Secretary of State for India will be very grave indeed. So far as his own remittances home are concerned, he has been adopting the expedient of swelling the gold loans, forgetting all the while that you certainly cannot go on accumulating year after year 10 or 15 millions sterling to the gold debt in order to prop up exchange. For the time being it releases him from the obligation of competing with private bills. If along with the Government remittances, the unofficial remittances also go on swelling, we shall be compelled to keep the balance of trade in our favour to an enormous extent indeed. If the Secretary of State stopped raising sterling loans and if the private capital ceased to flow in, what will be the balance of trade we shall have to keep in our favour? It will be a trifle under 50 millions sterling. That is to say, the Secretary of State will have to sell bills to the extent of about 75 crores every year. Will such a competition keep exchange steady and if so how long? In 1907-08 he was not able to sell bills for more than 15 millions and in 1908-09 for more than 7 millions. It is only the confidence of a bureaucracy that can count on selling Council bills for 50 millions in fat years and in lean years alike at 1*s.* 4*d.* a rupee.

CHAPTER V.

A PLEA FOR A RATIONAL POLICY.

We have ventured to discuss thus far the history of the Indian monetary system from the earliest times, followed its vicissitudes and fortunes during the last half-a-century and shown how we have been foundering in a morass of chaos and confusion from which escape does not seem within sight. We have said that we were thriving wonderfully well so long as we kept the silver standard although the gold-using countries passed through various stages of industrial and commercial depression and that the moment we closed the mints our troubles began. We have pointed out that the gold exchange standard is fraught with grave difficulties and that the adoption of a gold currency is by no means possible under our present economic condition. And we were inevitably drawn to the conclusion that it is high time we retraced our steps and threw open the mints to the coinage of rupees and conferred upon the country the blessings of an automatic standard.

There is no shutting our eyes to the fact that the silver party is now discredited and a plea to open the mints will only fall on deaf ears. The enormous

output of gold during the last decade has necessarily blinded the eyes of the people to the evils of a gold currency the expansion of which to the demands of trade they take for granted. Sir Roderick Murchison, the great geologist, said that "the quantities of gold and silver procurable will prove no more than sufficient to meet the exigencies of an enormously increased population, and an augmenting commerce and industry." In his work on the "Future of Gold," Professor Suess, of the University of Vienna, another distinguished geologist, stated that of the stock of gold existing, nine-tenths had been obtained from placers, and that those sources of supply were becoming more and more rapidly exhausted. He demonstrated that of the total yield of gold from 1848 to 1875 the proportion coming from placers was 87·78 per cent while in 1890 it was but 44·02 per cent. The results at the present time, he said, "show us more clearly than ever that on account of its growing scarcity, this metal will no longer be in a position to fulfil the economic function that it has hitherto fulfilled." Mr. N. S. Shaler thought that the output of both gold and silver must henceforth gradually decrease, and that "gold is more likely to become an article of increased cost within the coming half century than any other metal," though we are "liable to many sudden increments in the production thereof." Mr. J. D. Hague was of opinion

that while gold may slightly increase in yearly supply, silver can hardly fail to go the other way. Mr. R. H. Richards was exactly of the opinion of Mr. Shaler. Mr. J. S. Newberry uttered, as the result of his long experience, the conviction that our production of both gold and silver has passed its maximum, and that in future we cannot expect a yield of more than perhaps one-half the greatest annual product of gold. These have been for the time-being falsified by the South African discoveries and it would indeed be very difficult to convince people of the absolute need to take a wider outlook and pursue a policy and adopt a solution which has not an eye solely for the immediate present.

The natural and inevitable solution would seem to be to revert to the silver standard and open the mints to the private coinage of silver and face the consequences. It is not a heroic remedy, but one that has been suggested by practical financiers, by traders, merchants and businessmen no less than by theorists. The question was thoroughly discussed by the Fowler Committee and the extracts from the minutes of evidence we give below are enough to show that even in 1898, five years after the closing of the mints for silver, a large and influential body of opinion existed in favour of open mints. This is what Sir Robert Giffen said :—

10,128. Have you at all considered what the effect

in India is of a depreciated currency?—I am inclined to think, but with some hesitation—because in the present circumstances any course which is taken seems to present great difficulties—but, on the whole, the least disadvantageous course to follow would now be to go back to silver in spite of all its deficiencies.

10,129. And risk depreciation?—Risk a great deal. There would be a great shock; it is not a thing that ought to be done lightly, and the fullest amount of time ought to be given to the consideration of it, but the important thing is this, that, to have a good money at all, you ought to have an automatic standard.

10,317. Your opinion, I gather, on the whole is this: You think that the course which is the simplest and involves the least permanent loss, and is the most practicable, is to reverse what was done in 1893, to open the mints to the coinage of silver, and not to attempt either a gold standard or a gold currency, to leave the bullion value of silver to settle, so to speak, the exchange value of the rupee, and that the evils which would follow from any other course are greater than even the worst evils that could be predicted from that course?—That is the idea I have. Of course that is my general impression. I am not at all responsible for the present state of things, and I feel sorry indeed that such a state of things as we now have should have arisen; but I think on the whole the least disadvantageous course is to face the difficulty, and to go back to the right path, which I think was gone away from in 1893.

This is what Mr. Stephen Ralli of Messrs. Ralli

and Brothers, one of the largest firms doing both export and import business, said:—

5971. Are you in favour of the re-opening of the mints?—Yes, and I am certain that the mints will eventually be re-opened.

5972. Will you tell us the reason why you are in favour of re-opening the mints?—I do not wish the mints to be re-opened now, and I am entirely of opinion which the Indian Government in their minute express upon that matter, that to re-open the mints would produce great perturbation in the trade of India. I am in favour of re-opening the mints, but by gradual process.

6308. You contemplate, I understand, ultimately the re-opening of the mints?—I am certain that they will be re-opened ultimately, because whatever the Indian Government does in the shape of a gold standard will fail. It is a question of time; they will be driven to the re-opening of the mints by force of circumstances, and for that reason I think that that must be provided against by a slow process.

6309. You are in favour of allowing each metal, whether gold or silver, to find its natural level?—Yes, I am against the manipulation of the currency, and against any artificial currency for the reasons stated so ably by the Government in the despatch of 1879.

Mr. Robert Steel, C.S.I., said:—

7107. In fact, if you had a perfectly free hand, as I understand, you would re-open the mints?—Yes.

7108. You would let the exchange value of the rupee

follow automatically the market price of bullion?—Certainly.

7109. And whatever difficulties that might inflict upon the Indian Government, you think those would be temporary, and would eventually disappear, and that in the meantime any special financial burden could be met by temporary additional taxation?—Exactly.

Sir Frank Forbes Adam, C.I.E., said:—

7781. When you say India should get on to a sound basis you mean India should re-open the mints?—Re-open the mints and return to what is commonly called the honest rupee. I should explain here that the Manchester Chamber of Commerce, who unanimously passed the resolution your Lordship has read, are not of that opinion. They believe that, without fixing any time—it may be one year or two years—a better opportunity will arise for re-opening the mints without the dislocation of trade that would occur if the mints were re-opened at present, and that they would rather wait for that opportunity than that they should go on with further experiments which they believe will only aggravate the present difficulty.

7803. I want your opinion?—My own opinion is this, that we will never have a sound currency in India till either the mints are opened or we are on a gold standard with a gold currency; that a gold standard and a gold currency are not suited for the needs and circumstances of India, and therefore, that the sooner we get back to open mints and the free coinage of silver the better. But I am bound to admit that if you did it at

once or suddenly it would cause dislocation, and for years the Government of India would be sore set to find an equilibrium for their budgets. Still, so strongly do I feel the importance of getting back to a sound principle with regard to currency, that I personally would be prepared to face that.

Here is what Mr. W. H. Cheetham, an eminent Calcutta merchant said :—

8685. Would you say that the mints should now be re-opened ?—I am of that opinion.

8686. Immediately or gradually ?—If any expedient such as has been described in the evidence already given could be devised to break the great shock which would undoubtedly come from the re-opening of the mints, I think it ought to be tried ; but I believe that the market would take command very soon, and that the currency would get on to its old basis almost immediately ; that is to say, the rupee would assimilate to the value of silver.

Mr. Donald Graham, C.I.E., said :—

9059. Do you consider that the opening of the mints would have the effect of increasing stability of exchange?—I think it would now.

9060. Now, as distinguished from before 1893 ?—Yes. I think there were exceptional causes which broke down the price of silver, but I think those causes have now exhausted themselves. There was the demonetisation of silver in Germany, and there were the discoveries in America, the increase in the production of silver ; and there has been a scare about silver all over the world which, I think, has been carried too far. If the

mints were opened in India, I think it would be a signal for more confidence.

9061. More confidence in the future of silver?—In the future of silver; and I think there are great hopes for the future of silver. Africa is coming forward and China also, and, I think, there will be an immense consumption of silver in the future; and there are no exceptional causes, so far as we can see, to send it down.

In a note subsequently handed over by him he further emphasised his belief that all schemes which are not in full harmony with the special conditions of India, or not backed by sound and accepted principles, are doomed to disappointment, and that a return to open mints is not only the most safe and prudent course, but the one which in the long run will be found inevitable.

We should plead for a calm and dispassionate consideration of these opinions because they represent the mature convictions of businessmen and merchants carrying on enormous trade with India. Except Sir Robert Giffen everyone has been connected with India as export and import merchant and that is a title to consideration when it is alleged that the mercantile community has been decidedly in favour of closed mints. What even the most noisy section was in favour of was not closed mints and a gold standard *per se*, but fixity of exchange. Of course instability of exchange is only one of the

incidents of trade. It had been felt in the case of Russia and nobody had dared to complain about it. But in the case of India they thought they could play a successful game and they did succeed. From the above extracts, however, it is apparent that the more thinking section of the community has been against the closing of the mints at all and has pleaded for the restoration of the honest rupee. It is a circumstance considerably in favour of the silver party.

If we are to return then to the honest rupee and throw open the mints to the free coinage of the only metal that can be our standard metal, it is obvious that it will be immediately followed by the sudden fall of exchange causing a grievous deficit to the finances. Nobody who knows anything of the financial condition of the Government can think of causing a deficit just at the present time when one of the chief sources of revenue has been extinguished by those periodical outbursts of sentimentalism that afflict British Radicalism, the more ferociously perhaps when it is others that pay for it. The opium revenue has been sacrificed at the altar of British humanitarianism which would never have raised its head if it was the British Treasury that had to pay for it. And then we are face to face with many well-meant schemes of social reform which have been long over-due. Mr. Gokhale's Education Bill

takes in that list the first place and how easily could it have been given effect to if only we had the opium revenue with us. If the Bill is ever defeated it will be mainly because of the want of funds. If John Chinaman undertook to educate the three hundred millions by sending over about five crores every year, we do not know why British virtue should revolt against it. But then Non-Conformist conscience is peculiarly elastic and if the teeming millions are condemned to rot in illiteracy, the responsibility will rest on those British Radicals who persisted in killing the opium revenue.

A closer examination of the financial condition, however, discloses the fact that as the closing of the mints was in itself the result of a panic, its continuance has been responsible for all the evils of an inflated revenue and bloated expenditure. We have already said that the financial circumstances of the country embarrassing as they were, did not necessitate the extreme step of tampering with the currency.* That the currency changes have resulted in a series of surpluses which invited extravagance in expenditure has been pointed out times out of number, and by none more forcibly than by the Hon'ble Mr. Gokhale, in the Imperial Legislative Council. In the very first budget speech be delivered in the Council he drew attention to the effect of the

* See page 18 *ante*.

currency changes on Indian finance and pointed out that during 1897-1902 the surplus over expenditure was, allowing for all exceptional circumstances as war and famine relief, five crores of rupees which was just the saving in home charges, in consequence of the rupee having risen from 13*d*. to 16*d*. It follows therefore that if the mints had not been closed and if the rupee had stood at 13*d*. there would not have been during that period any considerable deficit or rather the Government of India would have been able to make both ends meet, if not leave a surplus. And in his able speech in moving a resolution in January last for the appointment of a committee to enquire into the growth of public expenditure he said that on the basis of the income and expenditure during 1901-02, the total growth of charges in 1907-08 was 18 crores. That is to say, even without due economy and retrenchment, the exchange difficulty would have solved itself and if any such were felt, it could have been amply met by the 18 crores by which expenditure had been needlessly pushed up.

Whether the finances of India can bear with ease the loss by exchange can of course be decided only when we know what may possibly be its charge on the revenues. At the present value of silver the loss would be 9 crores. But the lowest point ever touched by the rupee was in 1894-95, the average rate realised during the year being 13·1*d*. In that year

the Government were able to show a surplus of 70 lakhs. The immediate effect of the opening of the mints will undoubtedly be to raise the value of silver along with the fall in exchange and perhaps both would meet half-way. Let us suppose that exchange stood at 13*d*. and declined to go up and then the total loss which the Government would have to incur would be about $3\frac{1}{3}$ millions sterling or 5 crores. Are we in a position to face such a loss? This is what we have been able to do between 1898-99 and 1911-12:—

EXPENDITURE IN ENGLAND AND IN INDIA.

	1898-99 (accounts) £	1911-12 (Budget estimate) £
1. Direct demands on the revenue ...	7,054,861	9,081,000
2. Interest	2,014,166	2,125,100
3. Post Office	1,115,583	2,021,000
4. Telegraph	684,421	1,093,600
5. Mint	75,667	93,800
6. Salaries and expenses of Civil Departments	9,201,441	16,837,000
7. Miscellaneous civil charges ...	3,860,529	4,886,800
8. Famine Relief and Insurance ...	787,511	1,000,000
9. Railways: Interest and Miscellaneous charges	9,123,838	12,113,800
10. Irrigation	2,125,610	3,342,200
11. Other Public Works	2,115,636	5,234,000
12. Military services	17,153,718	20,811,900
Total expenditure, Imperial and Provincial.	55,312,981	78,640,200

This gives an increase in 14 years of about $23\frac{1}{2}$ millions sterling or about 35 crores. The general tax-payer is capable of enduring, at all events is made to endure, an annual expenditure of 35 crores more than what he endured a decade and a half ago. The loss in exchange if the rupee fell to 13*d.* could have consumed but one-seventh of all this additional expenditure. Can it be contended that it would under no circumstances have been possible to ear-mark one-seventh of all this expenditure for the purposes of owning an "honest rupee" ? Is the possession of a stable monetary system not worth 14 per cent of additional expenditure over the level of fourteen years ago? An examination of the figures given above shows in what directions economies could have been safely adopted. The salaries and expenses of civil departments have very nearly doubled, having risen from 9 millions to about 17 millions. The army services have increased by 20 per cent. There has been a sudden necessity felt for Public Works which have increased by 150 per cent. The railways have of course come in for their own quota of 50 per cent. The heaven-born service has been so lavishly helping itself on the principle that God helps those who help themselves that they hardly have any thought as to how long they can play the prodigal. Possibly they are staggered at their own moderation!

Obviously it is in these directions that the pruning

knife ought to be applied. The Finance Department have apparently a notion that they have gone too far and that they have mildly submitted to the incessant plea for more funds coming from the more powerful spending departments. Especially when Lord Curzon was Viceroy he cared very little for the financial well being of the country and created a number of berths for the sons of the British middle class lacking sinecure appointments in India and overmanned the establishments with the least rhyme or reason. And as the Government of India was merged in the Viceroy during his regime, the Finance Department had no voice. The tendency was evidently followed even during the regime of his successor and the cry must have been too incessant and unreasonable indeed when Sir Edward Baker took courage to declare with by no means more than necessary impatience: "I have now been connected with the Finance Department of the Government of India for 5 years continuously, and during the whole of that period I do not believe that a single day has passed on which I have not been called upon officially to assent to an increase of pay of some appointment or group of appointments, to the re-organisation of some Department, or to an augmentation of their numbers. All experience proves that whatever revision is needed, either of strength or emoluments, the Local Governments and

the Heads of Departments are only too ready in bringing it forward. Nor are the members of the various services at all backward in urging their own claims. I cannot in the least recognise the necessity for imparting an additional stimulus to this process." That is how the services have been proving the watch-dogs of Indian finance!

Should the worst come to the worst and the Government of India find themselves unable to make both ends meet, recourse of course must necessarily be had for additional taxation. But it need not be put upon salt or any of those commodities which are consumed by the poor. If India were a self-governing country, said Mr. Stephen Ralli, it would impose import duties and certainly it should do so to the extent that they may be required. And there are also certainly commodities like jute in which we have a practical monopoly. A judicious operation of the import and export duties should give us the additional 5 crores that we want. Sir Frank Forbes Adam, who gave evidence on behalf of the Manchester Chamber of Commerce, admitted that an import duty would not be objected to if all elements of protection were eliminated. In fact it is the fear of protection that has hampered our economic freedom. While the British manufacturer coolly submits to heavy impositions on the part of Russia, Germany, France, and the United States or even Australia or

Canada, any mild duty in India might provoke a commotion in Lancashire; but it is time we released ourselves from such a fiscal slavery. If Manchester were given to understand that for the restoration of the "honest rupee," it is essential that it should submit itself to a slight duty which may be but a fleabite compared with what it is putting up with at the hands of other countries, we do not think there can be any formidable objection. If Manchester persisted, it is high time we stood up to our rights. The total imports last year amounted to about 125 crores and an increase of a 4 per cent duty all round would be enough to meet any currency difficulty.

This is so far as India is concerned. We do not apprehend any great difficulty at all if only the Government were anxious to do justice by the people and restore to them a proper monetary standard. But it seems to us that they can tackle the problem with greater confidence and with more assured success if they endeavoured to settle the question by international agreement. Whatever apprehensions might have been entertained in the past as to the future of silver, we have reached a stage from which a further fall of the value of that metal is not possible. Silver is now a discredited metal for purposes of money and all the world over it simply serves a subsidiary purpose. The chief silver-using countries have given it the go by and we even levied an import

duty of four annas per ounce last year. Coming from India, that was the unkindest cut of all. It is therefore only destined to rise from a fall to which many untoward circumstances contributed. The force of European demonetisation of silver, the repeal of the Sherman Act in the United States, the closing of the mints in India, Japan and other countries and generally the scare that prevailed about its destiny,—the force of all this has expended itself and whether its recovery is gradual or quick is only dependent on how the Powers mean to act. If they sleep over the thing, the growing demands of China and Africa may yet give it a new life and if they took time by the forelock and settled among themselves the restoration of its position as a standard of value, it will regain its lost ground with unexpected ease.

The question of international bi-metallism is one on which argument has been exhausted, the lesson of past history has been repeatedly laid bare and the possibility of success has been urged with all possible emphasis. The late Sir William Harcourt once taunted Mr. Chaplin that if only permitted he would talk about it till Doomsday. Even then there may be many who may remain unconvinced. But both bi-metallists and mono-metallists are agreed in that silver should be restored to its value. Lord Rothschild was a strict mono-metallist and yet he felt compelled to interpose in the Brussels

Monetary Conference with a proposal to keep the value of silver at 43*d.* per ounce by each of the European Powers purchasing 5 millions sterling annually for subsidiary use. "It seems to me," he added, "that the European Powers, holding as they do large amounts of coined and uncoined silver, cannot be indifferent to the market price of that metal; and as to England, we have no right to look at one side of the question only and to ignore the complaints of a powerful minority." Lord Rothschild was right in making this appeal to England, for it is to England's opposition to any suggestion to settle the question by international agreement that the present condition of silver is entirely due. Even for such a simple proposal of Mr. Moritz Levy which would involve the withdrawal of small coins and half-sovereigns, there was considerable opposition and Sir Rivers Wilson declared that it would not be acceptable to them. Be it remembered that this was after Mr. Goschen's eloquent plea for the introduction of one pound notes as the stock of gold in the possession of England was at a dangerous minimum. The number of small coins circulated in England was estimated by Sir Charles Fremantle at 23 millions sterling; and so much gold would have been released by the adoption of Mr. Levy's proposal.

The plea for the extended use of silver has not

been made by Lord Rothschild alone. At the Monetary Conference held in 1878 on the invitation of the President of the United States, it was resolved on the motion of England and France that "it is necessary to maintain in the world the monetary functions of silver as well as those of gold." France and the United States invited a conference in 1881 with the object of "submitting to the acceptance of the Governments there represented a plan and system for establishing, by means of an International Convention, the use of gold and silver as bi-metallic money." After thirteen sessions taken up with profound discussions, the Conference adjourned on the 8th July, 1881, to the month of April 1882. Again Great Britain appointed a Commission on Gold and Silver in 1888 and in para 107 of the Final Report signed by the six members of the Commission who pronounced against the adoption of bi-metallism and for refraining from any fundamental change in the monetary system of England, they said: "We think that in any conditions fairly to be contemplated in the future, so far as we can forecast them from the experience of the past, a stable ratio might be maintained, if the nations we have alluded to were to accept and strictly adhere to bi-metallism, at the suggested ratio. We think that if in all these countries gold and silver could be freely coined, and thus become exchangeable against com-

modities at the fixed ratio, the market value of silver as measured by gold would conform to that ratio, and not vary to any material extent."

The following was the reasoning adopted by the Commission :—

Nor does it appear to us *a priori* unreasonable to suppose that the existence in the Latin Union of a bi-metallic system with a ratio of $15\frac{1}{2}$ to 1 fixed between the two metals should have been capable of keeping the market price of silver steady at approximately that ratio.

The view that it could only affect the market price to the extent to which there was a demand for it for currency purposes in the Latin Union, or to which it was actually taken to the mints of those countries, is, we think, fallacious.

The fact that the owner of silver could in the last resort take it to those mints and have it converted into coin which would purchase commodities at the ratio of $15\frac{1}{2}$ of silver to one of gold would, in our opinion, be likely to affect the price of silver in the market generally, whoever the purchaser and for whatever country it was destined. It would enable the seller to stand out for a price approximating to the legal ratio, and would tend to keep the market steady at about that point.

Such was the faith of the responsible authorities in England in the efficacy of bi-metallism when the country was passing through a stage of severe depression of trade. That was also a period when Mr. Goschen, one of the greatest of British financi-

ers, was impressing upon his countrymen the inadequacy of gold reserve. But no sooner was there a slight improvement than the faith was lost and England began to stand for mono-metallism pure and simple. The fact that the currency and the monetary standard of its greatest dependency was silver and that a considerable portion of its trade was with silver-using countries only induced it to take but a passive interest in attempts made by other countries to solve the question by international agreement. If it came to a question of giving practical effect to any recommendations, "mum" was the word. At a very early stage of the proceedings of the Brussels Monetary Conference Sir Rivers Wilson threw a damper upon any general discourse on bi-metallism and warned the Conference against the belief that England would listen to any such proposal.

The theoretical and practical aspect of the case for international bi-metallism is complete and irrefutable and nothing remains to be added to it. There is one point perhaps on which much stress has not been laid and to which we would make a passing reference. And that is that under the present political and economic condition of the world the growth of population is likely to be more rapid than it has been in the past and that the production of gold cannot keep face with it and that, therefore,

gold cannot subserve the purpose of money, if all nations took to gold mono-metallism. The population of the world at the present time may be roughly estimated thus:—

WHITES.

1. Europe	453,500,000
2. North America	85,000,000
3. Australasia	6,000,000
4. South America (Argentine, Brazil, etc.) ...	20,000,000
5. Africa	1,500,000
	566,000,000

MIXED WHITES.

(Including Indians) Mexico, Cuba, and West Indies, Central & South America	40,000,000

YELLOW AND BROWN.

Asia	947,000,000

BLACK.

1. Africa	140,000,000
2. Pacific	2,000,000
3. United States..	10,000,000
	152,000,000
Total	1,705,000,000

Now, the Whites double in 80 years, the Yellow and the Brown in 60 years and the Black in 40 years. To look not much ahead and only a quarter of a century hence the population in 1935 will be:—

Whites and mixed Whites	795,375,000
Yellow and Brown	1,341,584,000
Black	247,000,000
Total	2,383,959,000

The population would thus have increased in another 25 years or in the year 1935 by 40 per cent. Against that what can be the gold available for circulation? We give below the world's production of gold since 1493:—

WORLD'S PRODUCTION OF GOLD.

Period.	Number of Years.	Average Annual Production.	
		Millions of Ounces.	Millions of £ Worth.
1493-1545 ...	53	0·21	0·9
1545-1600 ...	55	0·23	1·0
1600-1660 ...	60	0·28	1·2
1660-1700 ...	40	0·33	1·4
1700-1760 ...	60	0·61	2·6
1760-1800 ...	40	0·63	2·7
1800-1850 ...	50	0·75	3·2
1850-1900 ...	50	6·6	28
1901-1910 ...	10	18·3	78

ADDITION TO WORLD'S STOCK OF GOLD.

Period.	Number of Years.	Millions of Ounces.	Millions of £ Worth.
1493-1660 ...	168	41	173
1661-1850 ...	190	113	480
1850-1900 ...	50	334	1,400
1901-1910 ...	10	183	780
Total ...	418	671	2,833

This gives an average of $6\frac{3}{4}$ millions sterling per year. Let us take the last seventy years. The following table gives the production of gold during that period :—

WORLD'S PRODUCTION OF GOLD.

Periods of Ten Years.	Annual Average Production.	
	Millions of Ounces.	Millions of £ Worth.
1841-1850	1·8	7·7
1851-1860	6·4	27
1861-1870	6·1	26
1871-1880	5·6	24
1881-1890	5·1	22
1890-1900	10·2	43
1900-1910	18·3	78
Total for last seventy years.	535	2,280

WORLD'S PRODUCTION OF GOLD—*continued.*

Year.	Actual Production per Annum.	
	Millions of Ounces.	Millions of £ Worth.
1901	12·9	55
1902	14·4	61
1903	15·8	67
1904	16·7	71
1905	18·3	78
1906	19·4	82
1907	20·0	85
1908	21·5	91
1909	22·1	94
1910	22·1	94

This gives an annual average of 32 millions sterling per year. It must be remarked here that this includes the last ten years when there has been an enormous production of 780 millions. It is by no means certain that this rate will be continued. Sooner or later the mines should exhaust themselves and unless the bowels of the earth will yield a continuous supply of the precious metals—and then they will cease to be precious—it would be folly to count upon a rate of output that has been obtained during the last decade. The Australian mines exhausted themselves very soon and South Africa may yet repeat the experiment. Let us take it that the average for the last seventy years will be kept up and Mother Earth will not disappoint us; we shall have then added 800 millions to the world's stock. We have seen that the addition to the world's stock of gold during the last 418 years has been 2,833 millions and as there must have been a considerable quantity of gold before, we may put the world's stock at more than 3,500 millions sterling. The Director of the United States Mint estimated that on 31st December, 1909, the amount of gold in the banks and public treasuries of the world was 941 millions sterling, and that gold coin in circulation amounted to 318 millions sterling. This accounts for 1,250 millions sterling. What has become of the rest? It must have been consumed for the arts.

The consumption of gold for purposes other than currency is therefore over 65 per cent of the world's stock. Even supposing that 50 per cent of the new output of gold will be retained for currency we shall only have 400 millions more or 32 per cent over the present volume.

We have seen that the growth of population in 25 years will be 40 per cent while the addition to the volume of currency can only be 32 per cent. But this comparison is vitiated in two respects. In the first place we have made no allowance for the wear and tear of gold. In the second place we have made no allowance for the silver-using countries at present. The gold-using countries include only a population of 660 millions. But if China, India and the rest of the world except the Blacks went in for a gold currency, the total population using gold would in 1935 be 2138 millions or 325 per cent. of what it is to-day. India is to have a gold currency and the Chinese have appointed a committee to reform their currency system. And if their example is followed by the rest of the Brown peoples, we shall in 1935 have a tremendous demand for gold. Against such a demand we shall have an addition to the volume of currency of 32 per cent. If gold mono-metallism is to hold good, if the countries like India and China go in for gold currency and if the growth of population keeps the ratio we have given, we shall have an increase in the gold-

using population of 325 per cent while the increase in the volume of currency will be only 32 per cent, making no allowance for wastage of the standard metal. Let us take the average yield of gold at the same rate that has been maintained during the last ten years; even then in 25 years we shall have an addition of 2,000 millions sterling or 1,000 millions to add to the volume of the currency, which gives an addition of only 80 per cent.

We have stated the case for gold mono-metallists in as favourable a light as possible and the conclusion is irresistible that the salvation of the gold-using countries lies only in the Brown and the Yellow peoples not following their precept. If China and India and the rest of the Brown peoples remained in the same state of ignorance and stagnation that they occupied for centuries, if they had ceased to profit by the example of the West, if a new life of industrial activity had not sprung up and quickened, they might be expected to be content with their old monetary systems. But they have soaring ambitions: the dry bones of the valley have suddenly revealed a new consciousness. China will not remain what she has been—an inert mass of human beings—a huge, lifeless Rhinoceros—proof against new sensations and new activities. She has got her constitution and her children are schooled in the learning, discipline and industrialism of the West.

The 'Yellow Peril' is no vain bogey of a distracted mind. The peril is not military; we need not fear a Mongolian irruption in Europe or in Asia. But a quarter of a century might yet see a vast development of Chinese activity in the world of trade and commerce. So too in India. Hampered though by innumerable difficulties, we have been able to steal a march over many Asiatic peoples in industrial progress and the progress is bound to continue; so that the reform of the monetary system is a pressing question in India as well as in China.

Gold mono-metallists have therefore to decide whether it is not both prudent and wise to link silver to gold to perform its monetary function and thereby arrest the fall of prices which must inevitably result from the adoption of a gold standard and a gold currency by China, India and other Asiatic countries. A shrinkage of currency has always been accompanied by heavy retrogression not only in prices but also in civilisation, in arts, commerce and in trade. It has been accompanied by innumerable troubles, by shortage of work, low wages, lock-out, riot and famine and many countries have passed through such periods though those experiences are apt to be forgotten when better times come round. Perhaps a rich country like England may stand such a trial, but it will be too much for a poor country like India where the failure of a single

monsoon carries off millions and where even in years of plenty a fourth of the people are on the verge of destitution considering even the extreme meagerness of their wants. We require a currency which we should have in plenty, which is not exposed to violent fluctuations in value, and which does not operate on prices with constant mutations. While gold prices have been extremely unsteady, silver prices have shown an astonishing steadiness throughout the world and in spite of the demonetisation of silver, commodities which in 1805 to 1869 could purchase 100 ounces of silver purchased 101 ounces in 1892.

It is therefore needful for the Government of India and those who are interested in securing to this country a good monetary system, to give their closest attention to the subject before they vote blindly for a gold currency. The appeal is to be made to them because there is a general opinion that the closing of the mints to silver is a settled fact like the partition of Bengal and that we have committed ourselves to a gold standard based upon a gold currency. It is never too late to mend and in our opinion it is not yet too late to re-open the question. For the nonce we may be lulled to a sense of false security owing to a temporary excess in the output of gold. But the pressure on gold has not yet begun to be felt. Even if the output

continues, unaided by silver, gold will find it too difficult to perform the function of money throughout the world, among an increasing population and with a still more increasing trade and commerce. It will not be long perhaps before it cried 'halt,' and beckoned back the comrade it had left behind. But the supply is by no means likely to be adequate to meet the demand.

This is perhaps not ignored by gold mono-metallists and the inadequacy of the yellow metal has haunted many of them. Mr. Bertram Currie, for example, suggested that the best remedy will be a gold standard without a gold currency. In his opinion gold has been chosen by the process of natural selection and to pull it down from its pedestal would be like the labour of Sisyphus. We are not sure if the theory of evolution has played a part in the selection of gold and the rejection of silver: we have a notion that it is due to prejudice and that variety of it which refuses to reason. Some have acquiesced in it because there is no other go. Whatever it be, no nation which resolves upon a gold standard would care to prevent gold from circulating. The anxiety of both Russia and Austria which have accumulated gold after considerable travail is how to force it into circulation. There is no reason why some countries should circulate it and others not and these would naturally resent any

such advice. Whether they circulate gold or not, they would endeavour to accumulate larger reserves of that metal and issue notes against them, which comes to the same thing. It is only countries like India which are helpless in the matter of regulating their own currency that must rest content with a goldless gold standard.

Before the Government of India decide upon the chimerical proposal to introduce a gold currency, it is as well that we impressed upon them the need for a thorough examination of the question of our having a stable automatic standard, which would be a trustworthy standard of value for long periods of time. They have to examine the question not merely with an eye for the immediate future; they must take a long vision. They have to satisfy themselves thoroughly that gold will not be made more valuable by our intercession and that we shall be able to bear the gold debt with ease. They must also satisfy themselves that we can get the metal to the extent that may be required for circulation. They must have further satisfied themselves that it would not be possible to settle once for all the value of silver internationally. Unless they do this they will have only prepared the monetary system to a crisis which may lead to a collapse. It would be inevitable if the supply of gold does not keep pace with the demand. The Brussels Monetary Conference has

been adjourned. May we not call another Conference and try, if possible, to overcome all monetary difficulties by an understanding with the Powers who are yet large purchasers of silver for subsidiary use? The atmosphere is much clearer now than it was in 1892 and should the attempt prove again abortive silver has not much to lose: it has gone down too deep to be afraid of further fall: it can only come up.

PRINTED AT THE LAW PRINTING HOUSE, MADRAS.